

Algeria	Sci. 15	Indonesia	Rs 2500	Portugal	Esc 50
Belgium	DM 0.85	Italy	1.100	S. Africa	Rb 5.00
Bulgaria	85.35	Japan	1.650	Singapore	S\$ 4.10
Canada	CS 50	Jordan	1.650	South Africa	R 100
Denmark	DM 0.78	Lebanon	2.10	Sweden	kr 6.50
Egypt	1.75	Malta	2.25	Switzerland	Swf 2
Finland	1.65	Lebanon	2.25	Taiwan	NT 385
France	Fr 5.50	Malaysia	Fr 5.50	Mexico	Rs 600
Germany	DM 2.00	Mexico	Fr 6.00	Peru	Ns 1.00
Greece	Dr 1.12	Morocco	Fr 6.50	Portugal	Esc 50
Hong Kong	HK 1.12	Myanmar	Fr 7.00	U.S.A.	Fr 6.50
Iceland	Fr 1.15	Philippines	Ps. 20	U.S.A.	Fr 6.50
India	Rs 15	Philippines	Ps. 20	U.S.A.	Fr 6.50

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Tuesday September 27 1983

IMF sees spirit of Bretton Woods vanish, Page 4

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NEWS SUMMARY

GENERAL

Britain to probe IRA jailbreak

The British Government ordered an immediate inquiry into the breakout by 38 Provisional IRA men from the Maze prison, Belfast. It is to be headed by Sir James Hennessy, Chief Inspector of Prisons.

The Rev Ian Paisley, a Northern Ireland MP, said the terms of the inquiry were not broad enough.

Among the 21 still at large, including men convicted for killing, is Gerard Kelly, jailed for life for his part in a London bombing campaign 10 years ago. Background to the escape. Page 11

Australia II wins America's Cup

Australia II triumphed over the defending American yacht Liberty to win the America's Cup, breaking the 132-year defence of the trophy by the U.S.

Using its revolutionary winged keel configuration designed by Mr Ben Lexcen, Australia II exploited errors made by Liberty, which had been leading by almost one minute in the early stages.

Bremen sit-in to end

Workers who have occupied the Weser shipyard, Bremen, for more than a week in protest against its planned closure, decided to end their action.

Rumasa court move

Madrid court declared former Rumasa group president Jose Ruiz Mateos and two associates in contempt for failing to appear on fraud charges. He failed to be in London and extradition moves may be made. Page 2

Bhutto widow's call

Mrs Nusrat Bhutto, widow of the executed former Premier Zulfikar Ali Bhutto, called Pakistan's army to oust President Mohammed Zia ul-Haq and set a date for free elections. Democracy and Pakistan. Page 3

Missile protest

About a dozen peace protesters were injured at the Comiso, Sicily, air base which is to house cruise missiles. Police who used tear gas, made four arrests. Page 2

Pravda party plea

Pravda, the Soviet Communist Party newspaper, called for more careful checks on applicants for party membership, pointing out that 14,000 had been rejected or not accepted for full membership in the first six months of this year.

Swiss keep waste

Switzerland has dropped plans to dump nuclear waste in the Atlantic this year because Britain's seamen's union has refused to crew a British ship to dump it. The waste will stay at Swiss power stations and the reactor research institute.

Unita attacks

Unita, the Angola opposition movement, said its government had killed 137 government troops and 47 Cubans in four days of attacks, and had shot down a MiG aircraft and a helicopter and destroyed 57 army vehicles.

Briefly...

Floods covered Leningrad streets, and cut off Lae, Papua-New Guinea's second city.

Philippines army moved in extra tanks and 1,800 more troops to help control Manila, the capital.

Ex-King Leopold III of Belgium, who abdicated in 1951, died in Brussels, aged 81.

BUSINESS

British current account surplus

New funds call as IMF compromises on lending limits

BY MAX WILKINSON, ECONOMICS CORRESPONDENT, IN WASHINGTON

The International Monetary Fund yesterday told the leading industrial countries that it might need extra loans of up to \$6bn in 1985-86. This followed a tense agreement early yesterday morning in Washington about increased lending limits to the maximum assistance which the Fund can provide.

A compromise was reached allowing countries to borrow 102 per cent of their quota - the funds they commit to the IMF - down from the current 105 per cent, with an access limit of 125 per cent for countries with "serious" problems.

Japan and the main countries of Europe have made clear, however, that the Fund's annual conference here that final agreement on their contribution to a \$6bn loan for next year will depend on the willingness of the U.S. to put substantial extra credit for Brazil, although the U.S. has pleaded that it would be difficult to get this through Congress.

In a series of meetings in the run-up to the main conference, which starts today, European countries have told Mr Donald Regan, the U.S. Treasury Secretary, that they cannot accept perpetual excuses that his hands are tied by Congress.

They have told him that the U.S. must provide substantially more than the \$1.5bn new credit that

the IMF's executive board is to be given.

All the other industrial countries argued, however, that continuing debt problems in the Third World demand that the maximum assistance should be raised by about a fifth. They wanted the limit to be 125 per cent of the new quota.

The compromise enables Mr Regan to announce some sort of victory to congressional lobbies.

This 125 per cent rider effectively gives the IMF's executive board the

Continued on Page 18

Spirit of Bretton Woods takes flight, Page 4; Editorial comment, Page 16

Ceasefire in Lebanon appears to be holding

BY PATRICK COCKBURN IN BEIRUT

THE CEASEFIRE in Lebanon appears to be holding last night, ending the three-week war in the mountains to the southeast of Beirut.

To clear the way for a new administration, Mr Chafik Wazzan, the Druze chief, had decided they were unlikely to extract any more concessions from the Government. The U.S. naval bombardment in defence of Souq al-Gharb, the embattled hilltop town nine miles south-east of Beirut, showed that Washington was not prepared to see President Gemayel overthrown by military

intervention in Lebanon, but widespread relief that the fighting has ended.

The ceasefire is to be policed by 500 observers from the United Nations, possibly drawing some of their members from the French and Italian contingents to the multinational peacekeeping force in and around the Lebanese capital.

The breakthrough in the negotiations came back to what was left of their houses just after the ceasefire started yesterday morning and seemed pleased to find quite a number of them intact. The streets are still filled with soldiers, resting after the last three weeks fighting. They said there was no shelling but a few snipers were active.

The streets of Beirut were also

much busier, with a return to the capital's notorious traffic jams. But getting back to normality will be delayed by the shortage of electricity and frequent power cuts.

It seems clear that Syria and its Druze allies had decided they were unlikely to extract any more concessions from the Government. The U.S. naval bombardment in defence of Souq al-Gharb, the embattled hilltop town nine miles south-east of Beirut, showed that Washington was not prepared to see President Gemayel overthrown by military

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BP issue raises £542m as UK institutions bid too low

BY DOMINIC LAWSON IN LONDON

THE BRITISH Government will raise £542.5m (\$814m) net of excise on its sale by tender of 139m share of British Petroleum.

The shares were allocated yesterday at a striking price of 435p per share, against a minimum tender price of 405p. The striking price was higher than most estimates by London analysts, and many British institutional investors appear to have pitched their bids too low.

The dealings in the partly-paid shares opened trading yesterday on the London Stock Exchange at 212p, a 12p premium on the £2 payable on application, and rose to 220p before falling back to close at 208p. Existing BP shares closed 2p higher at 438p. The balance on the new shares is due on January 11.

That was largely because those small investors who applied for not more than 1,000 shares at whatever the striking price turned out to be were allotted their shares in full.

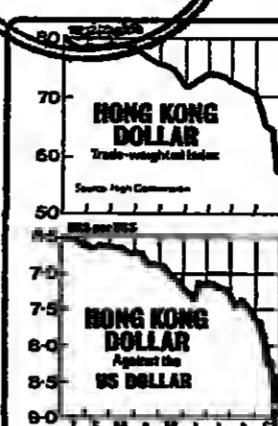
The small investor went for the £2 offer far more than for any previous government offering. A total of 72,870 striking-price applications were received for more than 39m shares. That was a much higher figure than expected and means that

more than 30 per cent of the issue is in the hands of small investors, even excluding those who tendered at a specific price.

In total, 171,45m shares were applied for at or above the 435p striking price. The Bank of England has not disclosed the total level of demand, but it is believed that the full number of shares applied for was about 350m, suggesting that £700m closed the issue.

There was little razzmatazz on the floor of the exchange when dealings started, and, in contrast with first-day dealings in previous £P offerings, there was not an all-out s-style hard hat to be seen.

Lex, Page 18; stock market reaction, Page 31



HK\$ up as banks raise prime

By Robert Cottrell in Hong Kong

THE HONG KONG dollar strengthened yesterday amid confusion over government plans to support the local exchange rate. Local banks helped the push for a stronger dollar by raising their prime lending rate 3 percentage points to 18 per cent.

It also assumes that Congress will shortly approve the 50 per cent increase in quota subscriptions to the Fund and an extension of the General Arrangements to Borrow, to provide a separate source of

Continued on Page 18

Spirit of Bretton Woods takes flight, Page 4; Editorial comment, Page 16

Reagan offers new package on missiles

BY REGINALD DALE, U.S. EDITOR, IN NEW YORK

PRESIDENT Ronald Reagan yesterday formally announced "a package of steps" intended to show U.S. willingness to reach an early agreement with Moscow in the Geneva negotiations on intermediate-range nuclear missiles in Europe.

In a major speech to the UN, in which he continually stressed his peaceful intentions, Mr Reagan said that the door to an agreement was open. "It is time for the Soviet Union to walk through it," he said.

Mr Reagan put forward what U.S. officials described as three important concessions in the arms talks. These were:

● A commitment not to offset the entire Soviet worldwide intermediate range missile deployment - in Europe and Asia - through U.S. deployments.

● Acceptance of the "Soviet desire" that nuclear-capable medium-range aircraft be limited as well as missiles.

● An "appropriate" reduction in the number of ballistic Pershing 2 missiles planned for deployment in Europe from the end of this year, alongside cuts in the number of cruise missiles.

In fact, however, the U.S. has never considered deploying the missiles anywhere other than in Europe, and Soviet negotiators in Geneva have already dismissed the latest U.S. offer as a false concession. Moscow has said that the Asian missiles are irrelevant to the balance of power in Europe.

U.S. to delay new spending cut plans

BY ANATOLE KALETSKY IN WASHINGTON

THE REAGAN Administration has put on temporary hold, until after next year's presidential election, all further plans for major public spending cuts, tax reforms and controversial deregulation initiatives.

The marked change of emphasis in the Administration's legislative priorities will emerge in the 1985 budget, which President Reagan will submit to Congress in January (the 1985 fiscal year begins in October 1984).

This budget is unlikely to propose any significant new actions to curb federal deficits, since President Reagan is determined to maintain his defence build-up and the White House political staff believe it is essential to avoid any social spending

Continued on Page 18

Fifty years of legislation threatened, Page 4

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EUROPEAN NEWS

Soviet fast footwork paid off in pipeline talks

BY LESLIE COLLYN IN BERLIN

THE SOVIET UNION reaped considerable advantages from Western companies in the negotiations for the recently completed Siberian natural gas pipeline by skillfully playing one against the other, according to a leading participant. Herr Axel Lebahn, until recently head of the Deutsche Bank's representative office in Moscow, also said that French and Italian taxpayers ultimately footed the bill to subsidise low rates of interest offered by French and Italian banks.

Herr Lebahn has given an insider's account of the negotiations in the current issue of the West German foreign affairs

publication, *Aussenpolitik*.

He said that Moscow's negotiating teams which dealt with Western exporters, banks and gas importers remained the same throughout. As a rule they first visited the West German partner then made the rounds of interested parties in Italy, France, and other European countries and Japan. In this way, he noted, the negotiations were conducted "in series and step-by-step" with the competing countries and companies.

This enabled a Soviet delegation to present the lowest Western bid for any part of a contract almost simultaneously

to all Western competitors "as the most the Soviet Union could possibly consider," Herr Lebahn explained.

As the talks progressed, he said, Moscow "skillfully played the various countries off against each other", while at a later stage of negotiations it even succeeded in winning the best terms from a growing number of competitors in each Western country.

"As the lowest bid for any part of a contract was automatically relayed to Western competitors they successfully undercut each other," Herr Lebahn said.

He added that, according to Soviet officials, Western ex-

porters over the years of negotiations were forced to cut their originally quoted prices "by up to 60 per cent."

Herr Lebahn said Moscow succeeded, in the case of Western export financing for the Urengoi gas pipeline, to make the cheapest credit terms bidding for all bidders. The most favourable terms, he said, were offered by France which agreed to provide credit for all French exports at an interest rate of not more than 7.8 per cent.

"As a result, the Russians demanded this rate from all other foreign banks and were granted it by all parties," he said.

The Soviet Union, he claimed,

succeeded in having more than half the cost of French and Italian exports and credit facilities for the pipeline "paid by taxpayers" in the two countries. This made the overall cost to Moscow "extraordinarily low."

West German banks, which did not receive such government aid, had to insist that West German exporters pay the difference between the terms negotiated and the actual cost of refinancing. He said this meant they often had to insist on such high prices that West German companies, which were favoured to gain the lion's share of the business, obtained only a fraction of the \$160 in contracts for the pipeline.

New Airbus will be in service by 1988, says France

BY DAVID MARSH IN PARIS

THE FRENCH Transport Minister, M Charles Fiterman, said yesterday that France, West Germany and Britain were agreed on bringing into service by 1988 the planned new European airliner, the A-320.

Although no formal decision on launching the project has yet been made, the news conference at the period up to the end of the year should be "decisive" in giving the go-ahead.

The French Government has consistently shown greater enthusiasm than its European partners for backing the \$2bn A-320 project during longstanding discussions over enlarging the range of Airbus aircraft.

He also used the occasion to support proposals for a trans-European high-speed train and to defend the productivity record of the French national railways SNCF.

SNCF has just been given the go-ahead for work to start next year on a high-speed rail link between Paris and the Atlantic coast to supplement the highly successful existing service to Lyons.

European railway equipment makers for some time have been discussing ideas for a high speed train link, modelled on French technology, between Paris, Lille, Brussels, Cologne

and possibly Amsterdam and, later still, London.

ing date.

During yesterday's news conference, in which M Fiterman spoke out the main themes of the Transport Ministry's 1984 budgetary plans, it was revealed that France is allocating FF 400m (£13m) in spending authorisations next year to back the A-320 project.

Budgetary sums are normally advanced by governments for Airbus research, development and production to be paid back later by Airbus Industrie out of the proceeds from aircraft sales.

The consortium had already started to repay grants previously made to support the first generation A-300 class of airliners, M Fiterman said.

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and possibly Amsterdam and, later still, London.

Brazil frees key P-2 man sought by Italy

BY RUPERT CORNEWELL IN ROME

THE EFFORTS of the Italian authorities to unravel the scandals of the P-2 freemasons lodge and Banco Ambrosiano appear to have received a severe setback with the release in Brazil, after only a few hours in detention, of Sig. Uberto Ortolandi. He was key figure in the now outlawed clandestine lodge.

Sig Ortolandi is widely held here to be at least as important in the structure of the P-2 as Sig Licio Gelli, the lodge's grandmaster, who escaped from prison in Geneva on August 10, barely a week before he was due to be extradited to Italy in connection with the Ambrosiano affair.

Like Sig Gelli, he was being sought by Interpol after magistrates in Milan issued an international warrant and had last June on charges of involvement in the financial and bankruptcy of Ambrosiano. The bank collapsed in summer 1982 with debts of around \$1.5bn.

After months of patient search, the Italian police finally traced Sig Ortolandi to Sao Paulo. On Sunday, he was arrested by the Brazilian federal police and interrogated for several hours.

Hopes that he might be extradited swiftly back to Italy were dashed, however, when he was released on the grounds that he was a Brazilian citizen of some 20 years' standing and faced no criminal charges in that country.

It is understood that Sig Ortolandi, who has extensive banking, property and publishing interests in Latin America, carries not only passport of Brazil and his native Italy, but also a Paraguayan one.

Sig Ortolandi, who is generally credited here with influential contacts inside the Vatican, is alleged to have played a central role in the complicated dealings between Rizzoli, Italy's largest publishing group, and Ambrosiano, whose former chairman, Sig Robert Calvi, was found hanged in London on June 16 1982.

Among the dealings now being probed by Milan magistrates is the mysterious transfer of \$143m—still unaccounted for—between the American subsidiary of Banco Ambrosiano on April 1981. This was at about the time that La Centrale, the financial subsidiary of Ambrosiano, announced it was taking a 40 per cent stake in Rizzoli, thus making public the control long since exerted behind the scenes at Rizzoli by Ambrosiano and the P-2.

Police charge peace protest at cruise base

BY JAMES BUXTON IN ROME

ABOUT A dozen peace protesters were injured yesterday when Italian police charged a demonstration at the Comiso air force station in Sicily, where a cruise missile base is being built.

In the most serious incident at the site so far, police used tear gas and made four charges to clear the gates of the base, in order to allow construction workers and U.S. Air Force personnel in enter.

Among those hurt was a female member of Parliament from the Left-wing Democratic Party for Protection of Unity, who suffered bruises.

The demonstrators came from a peace camp with about 1,000 participants from all over Europe which has been established outside the base, near Ragusa, in south-east Sicily. The protesters plan further demonstrations before the camp is disbanded next week.

Police first used water cannon, then tried to remove the demonstrators bodily before resorting to baton charges and the use of tear gas.

Sig Bettino Craxi, the Italian Prime Minister, said in Bonn last Friday that Italy would go ahead with installing 112 cruise missiles at Comiso from the end of this year, unless there was a significant new development in the Geneva

talks.

If cruise deployment goes ahead it will not be until early April when the first flight of missiles from Comiso will be operational.

Italy has the weakest protest movement in Europe against the new Nato nuclear missiles.

● The Norwegian state oil corporation Statoil is to increase the price of its crude from the Statfjord field by up to 50 U.S. cents per barrel from October 1, a corporation spokesman said. Reuter reports from Stavanger.

The move will raise the price of Statfjord crude to an average \$29.80 a barrel.

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West German local polls confound forecasts

BY JONATHAN CARR IN BONN

WEST GERMAN voters confounded the prophets and baffled the analysts in Sunday's regional elections—the first since the general election in March.

In the city state of Bremen the pundits had predicted that the ruling Social Democrat Party (SPD) would take a thumping. The city has more than its fair share of problem industries like steel, shipbuilding and fishing. It has an unemployment rate of nearly 14 per cent and one of the highest per capita debt levels in the country.

What happens? The SPD is swept back to power with 51.4 per cent of the vote, its best result in a Bremen parliamentary election for 12 years.

In the state of Hesse one thing was felt by the experts to

be certain. If the liberal Free Democrats (FDP) could struggle over the minimum 5 per cent needed to win parliamentary seats then a centre-right coalition with the Christian Democrats (CDU) would emerge.

Wrong again. The FDP surprised even its own founders jumping from the 3.1 per cent it gained in last September's Hesse election to 7.8 per cent this time.

The CDU's support, however, plunged so sharply (from 45.6 per cent to 39.4 per cent) that the two parties still do not have a majority of Hesse parliamentary seats. The SPD picked up more votes than before (46.2 per cent against 42.8 per cent) but it has no majority either. Nor does it have an obvious coalition partner. That implies that the SPD will continue to

provide a minority government as it has for the past 18 months.

The results are seen by some analysts as a sharp growing voter distance for Chancellor Helmut Kohl's centre-right Government in Bonn because of its efforts to cut spending and its firm support for Nato's nuclear missiles.

The probable answer is that, while national issues like unemployment and nuclear missiles played a big role in the campaign, local factors proved da-

cisive on polling day.

The SPD mayor of Bremen, Herr Hans Koschnick, is a local man born and bred who has held office for 16 years. Jobless demonstrators shouted angrily at him during public meetings before the election, but many voted for him all the same. They evidently feel they are the victim of wider problems for which Herr Koschnick is not really to blame—and which no one else available stands a better chance of solving.

In Hesse, the widely popular CDU leader, Herr Walter Wiedemann, made a tactical error in the campaign. He said repeatedly that he felt a vote for the FDP was as good as a vote for him. A lot of potential CDU supporters took him at his word and gave their votes to the liberals, expecting a centre-right coalition to emerge anyway.

The election is likely to be followed by a small Cabinet shuffle as M Roger Quillot,

Minister for Housing, and M Francois Autain, Secretary of State at the Ministry of Defence, both won Senate seats.

The Senate poll also means that there will be two by-elections to the National Assembly providing a critical test of the Government's popularity.

A further lesson being drawn from the results is that they are likely to confirm President Mitterrand in his belief that a shift to proportional voting would be more advantageous to the Left in legislative elections in 1986.

Finns plan to borrow FM 10.69bn

BY LANCE KEYWORD IN HELSINKI

FINLAND WILL need to raise FM 10.69bn (£1.24bn) in new long-term loans in order to balance next year's FM 84.45bn (£9.24bn) budget.

Borrowing is usually

split between roughly equally

available domestic and foreign

sources.

The budget total is 14 per

cent above this year's. Mr Kallevi Sorsa, the Prime Minister, and Mr Antti Pekkala, the Finance Minister, both stressed that it depended on nominal wage increases of at least the 8 per cent for the period beginning next April when the present labour contracts run out.

The same plea was made last year, but earnings have risen by about 10 per cent. Since an inflation rate of 8 per cent is forecast next year this would mean no real growth in incomes. The unions have already made clear they will not accept this.

They feel that, inflation excepted, the economy has been performing remarkably well by OECD standards.

Revised figures issued recently indicate a 2.5 per cent growth of total output in 1982 and 1983, and 3 per cent for 1984. Even unemployment is expected to fall below 6 per cent.

There is concern about the growing state debt. It will rise next year to FM 42.5bn, 14.6 per cent of GDP. Debt management costs will also begin to exceed the public sector borrowing requirement in 1984.

The budget adds some FM 700m to industry's direct costs in the form of social security charges, higher taxes and the introduction of turnover tax on telecommunications bills.

The latest decision means additional spending of FM 158bn over the next few years, 40 per cent of the sum financed by the companies themselves aided by tax relief, 40 per cent from bank credits and 20 per cent in direct

subsidies.

Purchasing bids for equipment from foreign buyers as well as Polish companies are being encouraged.

Efforts to persuade Comecon countries and Western companies to invest in shelved projects have failed. All that has transpired until now is talks with the Soviet Union on four projects in the steel industry, and the Czechs have agreed to contribute to a light bulb works at Pila.

Ruiz Mateos is declared in contempt of court

BY DAVID WHITE IN MADRID

THE CHAIRMAN of Spain's Rizzoli holding empire until its expropriation last year, the General Ruiz Mateos, has been granted bail of Pta 10m (£436m) in the case of Sr Ruiz Mateos and two former senior colleagues for failing to testify in the proceedings.

The Spanish authorities may now initiate extradition proceedings against Sr Ruiz Mateos, who has been staying in London, despite the absence of a standard extradition agreement between the two countries.

The move, announced by Judge Luis Llera, who is in charge of the case, follows detention orders sent out in

July and the failure of the three men to appear within a 10-day deadline set last month. One of the three, Sr Carlos Quintas, had been granted bail of Pta 10m (£436m) in the case of Sr Ruiz Mateos and the other executives, Sr Jose Diaz Hidalgo, to cover "financial responsibilities" arising out of the alleged irregularities at Rizzoli.

At the beginning of this month, the court began moves to confiscate properties in Sr Ruiz Mateos's personal possession in Spain, in lieu of the deposit money.

E. Berlin currency move

BY JAMES BUCHAN IN BONN

THE BONN Government expects East Germany to announce today its first concrete response to West German financial assistance granted during the summer.

However, the centre-right coalition Government confirmed yesterday that it was expecting nothing more dramatic from East Berlin than the exclusion of children from East German

rules on exchanging hard currency.

Since 1980, visitors have had to change DM 7.50 (£1.86) per day and DM 25 per adult.

The East German move will be in response to the Bonn Government's guarantee for DM 1bn loan to East Berlin in June.

But West German spokesmen made clear the gesture was seen as inadequate.

The Directorate spokesman said that the 40 new blocks (licensing areas) being offered in the current eight licensing round had been chosen with this in mind. Oil company applications for eight round licences are due on October 15.

Norway increases oil and gas estimates

BY FAY GJESTER IN OSLO

NORWAY HAS raised by nearly 50 per cent its estimate of proven recoverable oil and gas reserves on its southern continental shelf, following very encouraging results from several wells drilled during the summer.

The new figure is 8.5bn tonnes of oil equivalent (tce)—1.2bn tce up on earlier estimates. It comprises 60 per cent oil and 40 per cent gas, and corresponds to 7.7 years of output at the current rate of about 500,000 tce a year.

Particularly high flows were obtained from wells on the giant Troll gas field, confirming

earlier assumptions about the field's size.

OVERSEAS NEWS

Israeli ministers split over burden of U.S. loans

BY DAVID LENNON IN TEL AVIV

A ROW is developing in the Israeli Treasury and Defence Ministry over the division of U.S. aid which this year will exceed \$2.6bn (£1.7bn). The question is: should the accumulated repayable portion of the aid be expected to approach \$1bn next year and has the Treasury deeply worried. In an attempt to prevent this burden becoming insupportable in the coming years, the Treasury has indicated a willingness to demand less aid next year, if the grant proportion of the total is increased.

The Defence Ministry is concerned that this might mean a cut in the military aid element of the package while the economic aid portion is increased. This will mean that less money is directly available to the Defence Ministry. The U.S. aid package to Israel for 1983-84 is comprised of \$1.7bn in military assistance, of which about half is a grant and the rest loans, and \$910m in economic aid which is wholly a grant.

Teams of officials from the Israeli Treasury and Defence Ministry are already in Washington for discussions on the aid for 1984-85. The treasury officials are concerned that the U.S. may seek to cut \$200m from next year's allocation, in order to bring home to Israel the need to curtail the profligate spending of the government.

Mr George Shultz, the U.S. Secretary of State, has been among the sharpest Administration's critics of Israel's economic policies. He is

with its aid request. But because Israel is worried about its ability to repay it is pressing for enlargement of the grant aid.

Mr Yitzhak Shamir, Israel's would-be Prime Minister, held a preliminary meeting last night with Mr Shimon Peres, leader of the opposition Labour Party, to discuss the possibility of setting up a national unity government.

Despite this apparently promising development, the prospects for forming a coalition of the Right-wing and Left-wing parties is still considered remote by most members of both political camps.

Mubarak to press U.S. for greater volume of aid

BY CHARLES RICHARDS IN CAIRO

PRESIDENT Hosni Mubarak of Egypt will press during his current trip to the U.S. for more economic and military assistance from the U.S. and greater flexibility in the way it is used.

He will also address the opening session of the United Nations' general assembly when he will stress Egypt's support for world peace. He will take the opportunity

according to Cairo Press reports, to meet other non-aligned leaders, notably Mrs Indira Gandhi, Prime Minister of India.

President Mubarak's week long visit to the U.S. is his third since he took office two years ago. He will urge President Ronald Reagan and other politicians to give the U.S. a more prominent role in the Middle East.

The long standing bone of contention over aid is Egypt's desire for parity with Israel in the amount received and its terms.

In fiscal 1983 Egypt received \$1.36bn (£910m) in military assistance of which \$900m was a long-term loan at commercial interest rates, and the rest a grant. Egypt would like more to be a grant.

Under the military aid programme Egypt has received M-60 tanks, and F-16 fighters and armoured personnel carriers. In August Egypt signed a letter of agreement with Grumman for two E-2C Hawkeye early warning aircraft, the first of four it is hoping to buy.

On economic assistance, one of Mr Mubarak's ministers is expected to ratify an agreement passed by Congress on July 1 to release about \$100m of aid left over from projects that have been completed or are on hold. Egypt has been pressing for this kind of greater flexibility to try to clear some of the \$2.6bn of aid money that remains undistributed out of a total of more than \$8bn allocated.

Progress on this issue will be bailed in Cairo as establishing a precedent in the way aid money can be reallocated to projects for which it was not originally earmarked.

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China oil drilling suspended by Total

By Colin MacDougall and Anthony Robinson in Zhanjiang

REPORTED to have told Israeli officials in Washington in July that Israel must adopt a policy of economic restraint if it hopes to head towards economic recovery.

Because 1984 is an election year in the U.S., Jerusalem is not expecting many problems

ISRAEL'S foreign debt increased by a further 2.5 per cent in the first half of this year to reach a record \$21.5bn (£14.3bn). The increase was mainly in public sector debt. The proportion of short-term debts decreased, however, while that of medium- and long-term rates.

Israel will have to find next year nearly \$5.5bn for interest and capital payments. This is twice the amount of aid which Israel is asking from the U.S. fiscal year starting October, 1984.

with its aid request. But because Israel is worried about its ability to repay it is pressing for enlargement of the grant aid.

However, Mr Zhou Xiling, deputy managing director of Nanhai West Oil Corporation, the CNOOC operating company based in Zhanjiang, the main supply port for the area, told

the Financial Times: "In my opinion nothing will be changed in this contract."

The contract was signed and approved by both sides and has legal validity. "China's legal framework is not yet completed, so if we make changes now without thoughtful consideration, the presence of China might be affected," he added.

"Total has not yet expressed any desire to withdraw, and is not likely to until both sides have finished their independent evaluation. At that stage, both could change their minds, but on the other hand by then Total might be more interested in continuing."

Mr Zhu said that it was hard to say at this stage whether China would lose what he described as a "good partner" but emphasised that up till now Total had completely fulfilled its contract terms and had even drilled more wells than called for.

"We are optimistic about future oil prices. We believe they will rise again soon and so we consider that the terms and conditions of the Total contract are still reasonable," he added.

Total was the first to sign a contract for exploration in the South China Sea and did so on the basis of a "shared risk" contract with CNOOC. Subsequent deals were signed by BP, Shell and other oil majors on an allied basis. This makes the companies responsible for all exploration costs, while CNOOC retains the right of participating at the development stage.

Paul Betts adds from Paris: Total emphasised it was in no way abandoning its operations in China and indeed had acquired a new interest last month in the Pearl River prospect operated by Occidental Petroleum of the U.S.

Total is conducting studies on the South China Sea drilling which identified five oil-bearing structures. At this stage, however, the oil resources discovered to date appear to be big cost oil.

Total buys LNG, Page 5

U.S. assures Peking over high technology

Mr Caspar Weinberger, the U.S. Defense Secretary, has told Chinese officials that most of the military-related technology China is seeking from the U.S. can be approved under guidelines reclassifying China as a "friendly" and "non-aligned" nation, AP reports from Peking.

A U.S. official told reporters

that the U.S. could not approve

32 more civilian high technol-

ogy products with possible mil-

itary use and 11 more could be

approved with further study.

For Pakistan, 'democracy may not be the solution'

BY ALAIN CASS, ASIA EDITOR

THE FIRST PHASE of the campaign to topple President Zia ul-Haq of Pakistan is now over. The next phase may prove less spectacular than that past month but, in the longer run, may be more dangerous.

Although street protests and civil disobedience, in which people offer themselves for arrest and flogging in the Ghandian manner, continue the signs are that these weapons may have been blunted by the regime's firm response.

The country's motley collection of opposition leaders must now decide whether to continue with the present course or adopt new tactics in which sabotage and the ever-present threat of secession in Pakistan's smaller provinces are used to winkle General Zia out of power.

So far between 40 and 60 people have been killed in clashes with the police, depending on whose figures you believe, and several thousand protesters, including all of Pakistan's top politicians, are under arrest.

The campaign has been largely confined to the southern province of Sindh. It is now time to look at getting the other three provinces to rise in revolt.

People in the Punjab, therefore, would have an interest in upsetting the status quo.

The same is not true of Baluchistan, Pakistan's vast and arid province where tribal leaders regard self-determination as far more important than the alien concept of parliamentary democracy.

"Democracy is no solution to the problems of the minorities in the provinces," says Aftab Mengal, one of the

three most influential Baluchi leaders who now live in self-imposed exile in London.

"The problem lies, for us, with the domination by the Punjab of the three other provinces. When

that becomes the issue you can expect the Baluchis to rise."

The same is true probably of the wild North West Frontier province which borders Afghanistan and which has been flooded with refugees.

There are already signs that these opposition leaders still at liberty are beginning to turn to the more potent forces of secessionism.

Mr Mustafa Qar, a leading figure in the banned Pakistan



People's Party and once regarded as the heir apparent to the late Prime Minister Zulfikar Ali Bhutto, hinted at this in London recently.

"The choice which now faces the army," he said in an interview, "is between acceding to the demands for greater participation in running the country, facing sabotage, and revolts and secessionism. The Punjab has become a thorn. Its domination of the rest of the country is deeply resented. This, along with the brutality of the army, against ordinary people has started a process of disintegration."

Behind the rhetoric there is a chilling message for President Zia, whose skill in using foreign aid and the threat of the Soviet presence in Afghanistan has helped him keep the country's fissiparous forces under control and stay in power.

President Zia appears to be riding the storm. But if the limited cry for democracy in Sindh is replaced by fuller calls for secession in the Sindh, Baluchistan and the Frontier, President Zia may find to his cost that the U.S. own supporters within the country, and his fellow generals will conclude that the integrity of Pakistan is more important than the fate of one man.

Leakey's voters dress up for the trip to the polls

RESIDENTS of the sprawling, tumbledown Nairobi constituency of Langata went to the polls yesterday along with millions of fellow Kenyans, in an atmosphere akin to a country fair, Michael Holman writes from Nairobi.

Men and women had taken a day off work—many Nairobi businesses closed for polling—and, dressed in their finery, paraded along the dusty and potholed lanes of Kibera suburb.

Despite isolated incidents around the country, yester-

day's voting in the 153 constituencies being contested (five candidates were returned unopposed) went smoothly, and first results were expected late last night.

In Langata, roadside venders of roasted maize cobs and soft drinks did a brisk trade with passersby, cobblers fixed shoes, and charcoal was sold by the bundle. These are the sort of jobs Langata residents find for themselves, in a precarious existence between the salaried jobs

found in the city and stark unemployment.

But in one respect Langata is special. The sitting MP, contesting the seat once more, is a white Kenyan, Mr Philip Leakey, who won it in 1979 with a 2,000 majority.

If election posters are anything to go by, he is home and dry. The constituency seems plastered with them, providing the incongruous spectacle for Africa of a white politician's face on a shanty hut.

Mr Leakey, a fluent Swahili speaker, is renowned for his entertaining campaign speeches with a sometimes earthy style which appeals to the locals. His election symbol is a lion, and residents greeted visitors yesterday with a wrist-turning gesture of a key in a lock, or wagging an index finger in the air, declaring "Leakey Jon" (up with Leakey) and beaming broadly.

The outcome will probably be closer: his leading challenger is Mr Achienge Onyeku.

a former minister, who is expected to draw strong support from the Luo tribe in a mixed constituency which includes Kikuyus and Luhyas.

At the polling booths, the Leakey officials—easily identified by their emblazoned tee-shirts—were reasonably confident. "I think we'll make it," said one, his English complexion turning pink as the day advanced. "but I cannot be too sure—I don't speak Swahili."

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AMERICAN NEWS

State Department trade chief quits in row over CoCom

BY STEWART FLEMING IN WASHINGTON

A DISPUTE between the U.S. State Department and Defence Department over the role of CoCom, the Paris-based export controls agency, has led to the resignation of Mr William Root, Director of the State Department's Office of East-West Trade.

Mr Root said yesterday that because of the Defense Department's stance on negotiations about controls on computer-controlled telecommunications switching equipment, he could see no way of reaching agreement with the allies of the U.S. on controlling exports of such equipment to the Soviet block, within the CoCom framework.

He had no doubt of the need to tighten up and revise definitions which CoCom uses in framing controls on such equipment. Current definitions, framed in the early 1970s, are lagging behind developments in a fast-moving technology, he suggested.

According to Mr Root, the Defense Department has been dragging its feet ahead of a planned CoCom meeting on October 17.

On September 14, a day before the U.S. was due to send its proposals to its CoCom partners, the Defense Department told the State Department that in its view the CoCom committee was not an adequate

U.S. Steel's hopes fade on links with BSC

BY TERRY DODSWORTH IN NEW YORK

U.S. STEEL Corporation's hopes of clinching a deal to link its steel finishing facilities at Fairless, near Philadelphia, with slab produced by British Steel, are steadily diminishing.

According to Mr Thomas Graham, vice-chairman of U.S. Steel, the corporation now believes that its chance of an agreement to import the BSC slab are less than 50-50.

Negotiations were still continuing over the plan, he added, but the group had agreed to meet the United Steelworkers Union and "consider alternatives."

The two steel companies had previously indicated that they wanted to reach an agreement before the end of this month.

But the project has run into vigorous opposition from the steelworkers who claim that it will mean a long-term threat to Fairless.

Under the proposals, BSC would sell about 3m tons of slab a year to U.S. Steel, while taking an equity stake in Fairless.

The Western Democracies are not short of ideals. We have values and a way of life which are the envy of those who have never known them.

I wonder whether we take them too much for granted. For the preservation of freedom and justice needs constant unremitting efforts.

There is a battle of ideas to be won, a battle in which we are better equipped than our adversaries for our ideas are better.

Thatcher says Nato must deploy missiles

OTTAWA — Mrs Margaret Thatcher, the UK Prime Minister, said yesterday that the Nato Alliance does not want to deploy cruise and Pershing-2 missiles, but must go ahead unless the Soviet Union dismantles all its medium range SS-20 missiles, AP reports.

Mrs Thatcher, in Ottawa to meet Mr Pierre Trudeau, her Canadian counterpart, said on television that the Soviet Union had "upped the ante" by installing modern new missiles targeted on Western Europe.

"We would like to spend less on armaments," she said. "We don't want to deploy the cruise and Pershings, but we have to unless the SS-20s are taken down, because the whole of our peace depends on Nato being a deterrent to the Soviet Union."

The Act does give the Secretary of State the right to conduct negotiations in this area but requires the President to report to Congress if he overrules the Defense Department.

This gives the Defense Department too strong a position in relation to the other branches of Government, he maintained.

The Washington Post quoted Mr Richard Perkins, Assistant Secretary of Defense for international security policy, as denying that the U.S. opposed working with its allies on co-ordinated export controls.

Mrs Thatcher yesterday began a North American tour taking her to Washington and the United Nations.

Canadian officials said Mr Trudeau and Mrs Thatcher would probably "compare notes" on the anti-cruise missile protests which each is facing—in Britain against plans to begin deployment of the U.S. missiles this year, in Canada against an agreement to test the cruise delivery system in Northern Alberta.

Later, speaking to the Canadian Parliament, Mrs Thatcher called for a new "freedom offensive," in one of her strongest attacks yet on the Soviet system.

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Max Wilkinson reports on a worldly struggle over money in Washington

Mean-spirited twilight for IMF gods



help in future. But the loudest curtain call of this drama will probably go to the "Little Comptroller," named after the Treasury's top international adviser and draftsman.

This formula was finally accepted at a Wagnerian hour between midnight and dawn yesterday. It followed fierce disagreement about the new limit for assistance to be provided by the fund.

Most industrial countries wanted this to be 100 per cent of quota subscriptions, but Mr Reagan was forced to pretend to Congress that he had beaten them down to 102 per cent.

The genius of the Little Comptroller, surely in direct descent from Lewis Carroll, was to invite the nations of the world to agree both figures at once.

Thus they did, leaving it excellently obscure as to which countries could get 102 per cent and which 100 per cent.

This by no means minor detail will be left to the fund's executive board to decide, at a later date, when Congress has ceded down a bit and the audience of pressmen is a good deal smaller.

Sir Terence Burns, the UK Treasury's chief economic adviser, was stopped by a man at Heathrow who asked: "Will you be seeing a Mr Leigh-Pemberton?"

This was not the time for a Treasury knight to deny knowledge of the Governor of the Bank of England, so the hapless Sir Terence put in charge of a large number

of suitcases which the Bank improvidently left on the tarmac.

In spite of these alarms outside the main theatre, the British delegation once more proved to be masters of the runes which enabled heated argument to be magnetized into communiques of perfect accord.

One talisman proved to be "horizontal facing down," which in the language of Middle Earth, means giving poor debtor countries less

overhead just as it was getting close to the shore."

Since last year's IMF meeting in Toronto, solutions have been forged for Mexico and Argentina—and "we are on the verge of a solution for Brazil," he said, "but we are not out of the woods—there are some lingering problems."

Mr Butcher said he was growing increasingly hopeful that Congress would pass a quota increase. It had "grossly misunderstood" the IMF which was not an aid agency and was also not involved in bailouts or commercial banks with loans outstanding to debtor countries.

Whatever happens on the quota increase, the banks will have to put into Brazil "many times what the IMF puts in."

The banking system could scrap by without additional IMF money but it would be a very unattractive solution, he said.

Mr Willard Butcher

Mr Robin Leigh-Pemberton, Governor of the Bank of England (left), and Mr Nigel Lawson, Britain's Chancellor of the Exchequer, outside the IMF building in Washington. It is the first time that the men have attended the conference in their present roles

Health, environment, welfare hit by Government cuts

Reagan brings bureaucracy to heel

BY NANCY DUNNE IN WASHINGTON

President Reagan has gone as far as Congress has allowed him in fulfilling his promise to "take government off the backs of the people". If all his proposals are adopted, some

observers believe U.S. social and welfare policy will be back to where it was before the New Deal.



The result has been a wrenching upheaval within the federal Government and far-reaching changes in policies designed to protect public health, upgrade and preserve the environment and promote the welfare of the poor and minorities.

Because the Democratic-controlled House of Representatives opposes most of the federal Government's public, the President has wrested change through budget cuts and administrative policy revisions.

The thriving federal bureaucracy, which had propagated both necessary and lame regulations through 50 years of Government growth, has been largely brought to heel by conservative department heads, many of whom were appointed to dismantle or dilute the programmes they head.

The budget cuts and shifts of responsibility to the states have produced "a counter-revolution," according to a report prepared by the Urban Institute, which said that the size and scope of the federal establishment had been reduced to roughly the level of the mid-1970s. The study concluded that if all the President's proposals are adopted, he could "restore economic policy and inter-Governmental relations to their status before the New Deal."

Most of the budget cuts have hit "human resources" programmes—those for the retired, disabled, poor and unemployed.

Spending has been reduced by 7 per cent from what it would have been under laws existing at the beginning of 1981, according to a recent Congressional Budget Office study.

Employment programmes, it says, have been reduced by almost 60 per cent. Those who earn less than \$10,000 (£6,600) a year have lost most significantly in Government assistance.

The President has had his greatest successes where Congress cannot easily intervene.

At the Labour Department, Secretary Raymond J. Donovan has appointed management-oriented consultants to top posts where they have been responsible for reorganizing or postponing many work-related health and safety rules.

One of these appointees, Mr Thorne Auchier, head of the Occupational Safety and Health Administration, one of the agencies most despised by business, has reduced federal inspections of workplaces and weakened major occupational health standards.

Like several other Reagan regulators, he has advanced a scheme to allow some companies to "self-inspect" their operations.

According to a report prepared by the General Accounting Office that some of the coal leases went for rock bottom prices to companies which had improper

inside knowledge.

The Environmental Protection Agency has only begun to recover under Mr William D. Ruckelshaus from the scandal over its waste cleanup programme when the agency was headed by Mr Watt's protege, Mrs Ann Gorsuch Burford.

Once one of the most efficient federal agencies, the EPA was hit severely by spending and staff cuts. Its entire direction shifted from environmental protection to reducing the burden of environmental protection laws on polluters.

Driven from office by congressional fury over improprieties in the waste management programme, Mrs Burford claimed: "We have compiled a solid record of achievement."

Predictably, it has been the unemployed and working poor who have suffered most from the effects of the government cuts. The food stamp programme for the poor has been drastically reduced, and the hungry have been sent to a proliferating number of soup kitchens and emergency telephone "hot line" agencies, which bring food to the desperate.

The Legal Services Corporation, which provides legal help for the poor, has also been slashed. The Administration tried to convince Congress to abolish the agency, but after failing in that attempt, the

President appointed 10 conservative board members, many of whom had opposed the corporation in earlier court suits.

According to a report of 16 local legal service programmes by the American Civil Liberties Union, the number of lawyers in the programme was cut and 300 field offices were closed.

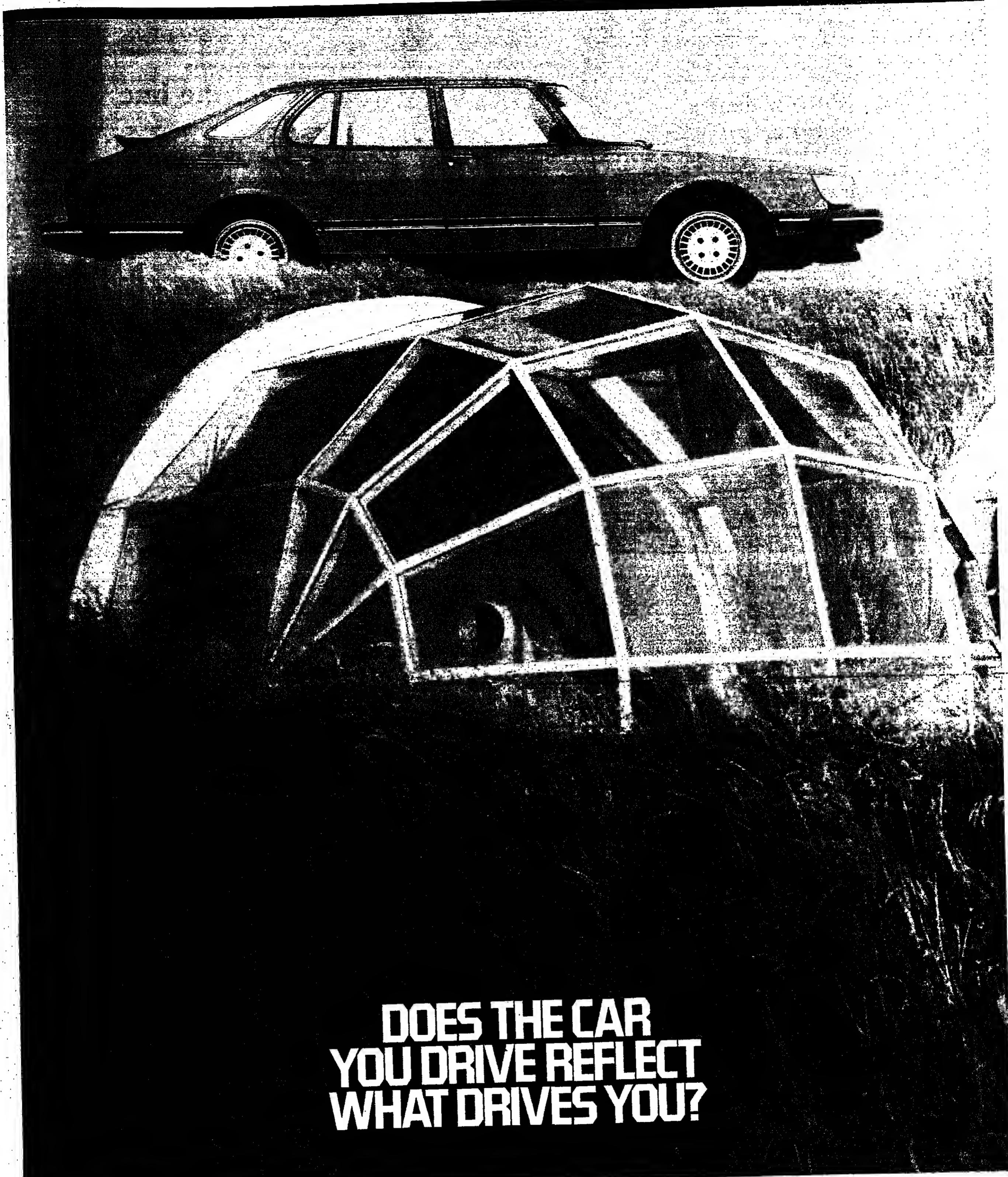
Thus far, the Reagan Administration has been remarkably adept in its handling of Congress and opposition bureaus. Occasionally, as in the case of the EPA, the Democrats are able to promote public outrage to the point that the President backs down, but usually he manoeuvres skilfully.

The President has been loyal to his promise to curtail domestic programmes. That he has done so has been to the misfortune of those who depend upon Federal resources.

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A glance at the Saab Turbo shape and you know the owner definitely doesn't want to look like everybody else.

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They're very responsible.

That's why they marvel at the long life asbestos-free brakes, which are so positive that emergency stops don't cause them heart failure. The rigid steel safety cage (probably the strongest passenger

cell on four wheels) and the bonnet designed to crumple on impact and not shoot through the windscreens.

Finally, you'll soon realise that Saab owners enjoy the luxuries of life. That's why you'll discover, fitted as standard, a heated driver's seat, power steering, central locking, electric windows and mirrors plus a special air filter that stops dust and pollen seeping in.

And if you really want a life of luxury there are always little extras like air conditioning, sunroof, automatic gearbox and cruise control.

By now, you should have a clear picture of who buys a Saab and what is the driving force behind them.

Could it be a reflection of you?

SAAB APC TURBO

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TECHNOLOGY

EDITED BY ALAN CANE

The UK takes lead on sponsored films

Video & Film

BY JOHN CHITTOCK

THE OPPORTUNITIES for British industry to reach the public through moving pictures have been few and frustrating. In the salad days of the cinema, only exceptional sponsored films achieved circuit release, and the advertising shorts were usually geared — like TV commercials — to high spending budgets for very brief messages.

Editorial use of sponsored documentaries on television has been a goal achieved by the very fortunate on the crest of occasions. In consequence, sponsors who have wanted to reach public audiences with any degree of certainty have depended principally on 16mm non-theatrical distribution — viz. to schools, women's institutes, clubs and other groups where film shows are held.

If the notion of a small audience sitting in a darkened church hall to watch a 16mm film seems primitive, the arrival of video has offered a cheaper, more flexible and more attractive alternative. But some of those whose business relies on the 16mm film — such as distributors and processing laboratories — vigorously claim that this medium of sponsorship is alive and doing very well.

Such claims do not square with all of the available evidence. Many producers whose livelihoods have been based on sponsored films complain of business being lost to newly-formed video companies (while others have added video to their capability). Yet perhaps the most revealing statistical evidence is to be found in entries for the British Industrial and Scientific Film Association's annual festival. The percentage of entries submitted on video (although perhaps shot on film) has climbed steadily from 3 per cent in 1979 to nearly 42 per cent in 1983.

It therefore seems curious that at the international industrial film and video congress, which last week was held in London, 110 of the 133 entries from 15 countries were on film (and of that, a surprisingly high proportion on 35mm). In conversations with various delegates, my earlier suspicions have been confirmed. Exports is probably leading the world in switching to video for distribution purposes.

Many well-known examples of this have been documented in this column over the last few years, such as the Mothercare video disc project for point-of-

sale display, the AA's venture with Ford to produce videocassettes on motor car maintenance and a number of sponsored videoconferencing programmes for direct sale to the public (eg. Redgum's "Petfood's All You Need to Know About Dogs").

One of the most ambitious sponsored video projects is about to be launched in UK. Peter Stuyvesant Travel (a subsidiary of Rothman) have put together a ski holiday promotion package which is based on a videocassette derived from a new Channel Four series about skiing and related to a ski

The growing availability of television to industry is now pushing moving pictures into the front line of marketing and corporate PR strategies.

teaching book about to be published by Collins.

A consortium of Goldcrest Television, Wm Collins and Peter Stuyvesant Travel have pooled their resources to finance a 16mm television series which will be shown this winter. From this comes the re-edited 75 minute videocassette which PST will promote; and the Collins book "How We Learned to Ski" (same title as the video programme) — which adds its own dimension to the enterprising few regarded such media seriously.

British Petroleum have been for years one of those enterprising few, and last week demonstrated the whole box of tricks when the Prime Minister inaugurated the Magnus oilfield. Mrs Thatcher (and a few hundred guests) was in London, others assembled in Aberdeen, and a handful of hardies on the oil platform north-east of the Shetlands. In all, the biggest exercises of its kind, satellite television linked all three, and in between times was screened a conventional film putting the entire Magnus project into perspective.

An exercise of this kind is moving the traditional concept of the 16mm sponsored film on to totally new ground. At last the audience size is substantial, identifiable, and reachable at a cost which is easier to justify.

Some distributors of conventional film are watching such developments carefully. For example, in Finland Oy Infomedia is buying cable time and offering film sponsors segments interspersed with commercials.

Other distributors are experimenting by placing videocassettes in book lending libraries — such as Melbourne, where each free cassette is borrowed on average twice per month. Since VCR penetration in Australia is only 18 per cent, it shows promise; would one book be borrowed twice monthly if only 15 per cent of the population were literate?

At last week's International film and video congress, it was impossible to get a consensus view of this trend away from traditional 16mm distribution. Some cling vigorously to 16mm; whilst others — especially in UK and Scandinavia — now reckon that up to 80 per cent of their copies are circulated as videocassettes.

It makes economic sense. Such as for Rolls-Royce, who last week previewed their new schools film "To Be an Engineer". Aimed at arousing interest in engineering at a school level, Rolls-Royce are giving videocassette copies of this to every teaching centre in the country. That would be unthinkable with 16mm prints.

The growing availability of television to industry — whether through video, cable TV or teleconferencing — is now pushing moving pictures into the front line of marketing and corporate PR strategies where once only the enterprising few regarded such media seriously.

"Twenty per cent of the projected 22m personal computer homes will be equipped with modems — the devices that hook up the computer to the telephone line — by 1985. In addition, 1.5m telephones with computer capabilities and built-in displays will be installed in US homes by the end of the same year," he believes.

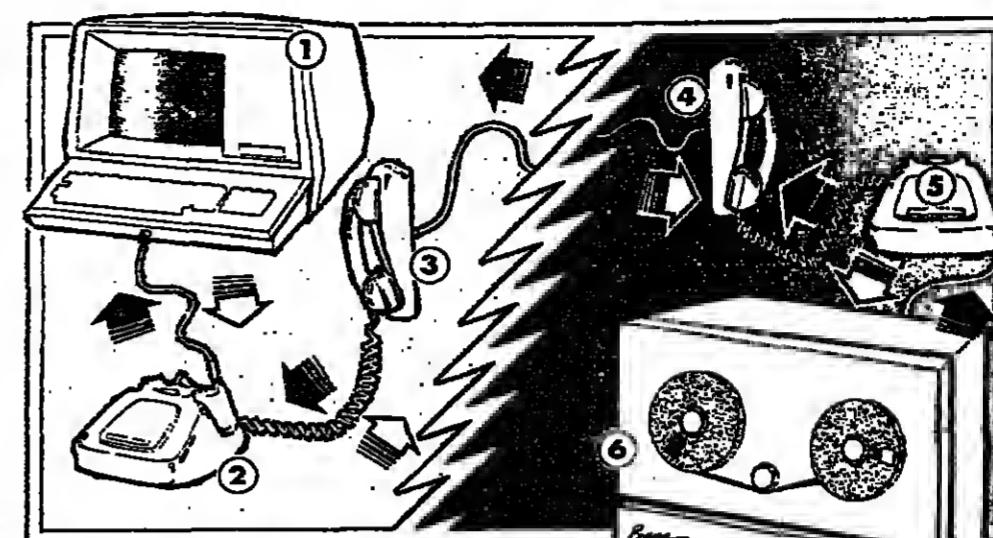
Advances in microchip technology that have reduced the cost of modems from over \$300 a year ago to under \$100 are expected to drive new subscribers to existing home computer services as well as to the new video game "channels".

"The customer does not care how the game software gets to him or her so long as it is cost effective and convenient," comments Mr Stuart A. Segal, vice

U.S. INTEREST GROWS IN HOME COMPUTER COMMUNICATIONS

The home workstation is on the line

BY LOUISE KEHOE IN CALIFORNIA



Home computer communications is based on linking the computer (1) via the modem (3) to the telephone system (2). This converts the digital bleeps of the computer into tones which can be sent down the telephone line. A similar conversion takes place at the other end in the main computer which stores the games packages

President of marketing at Computer Video Corporation in McLean, Virginia, CVC launched its game-by-phone service, called "Gameline," a month ago. Like the planned AT&T venture, Gameline uses telephone line communications.

Consumers purchase a US\$60 master module that plugs into video game machines and then pay a US\$1 fee per game session.

"We aim to have 20,000 subscribers by year-end," says Mr Segal. Although the AT&T/Coleco venture will compete directly with Gameline, Mr Segal welcomes the announcement. "It certainly legitimises everything that we have tried to do," he comments.

Not everyone is convinced that games by phone will be a success. The sceptics include cable television operators whose "wires" compete for traffic with those of the phone companies. Several cable television companies have experimented with video games as a means of attracting new subscribers.

One such venture is Playable, a joint effort between Mattel and General Instruments that was launched two years ago. The video game service is currently available on 20

manufacturers in various parts of the US, but general manager, Mr Paul Hill, admits that his product has not been an overwhelming success.

"We have had to overcome consumer resistance to having to spend more money on yet another 'box,'" he explains. In this case the "box" is a customised adaptor that links the video game machine to the telephone line.

Video game producers are not sure what to make of the by-phone services. "We are looking at it," said Atari's spokesman. "We hope that consumers will try out new games by phone and then buy their own copies," added Segal, some of whose games are distributed on the Gameline system.

"Game makers have been receptive," says Gameline's Mr Segal. "They get a royalty for each time a game is played, but more important, they can test market their products at very little cost." Mr Segal explains Gameline plans to preview new games and give game producers information on the success or otherwise of the game.

"Yes, it will kill a bad game, but the cost of bringing a new game to market is huge. The Coleco says that copying "is not seen as a problem" but will not reveal how they mean to prevent copying. "It is something that is not easily gotten around," says Mr Segal at Gameline, which is currently considering expanding its services to sell home computers. Microtel 800, the UK company which offers a similar service, will be reviewed in a subsequent article.

The good news is
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Selling technology

Offshore

Alaskan floating islands

A MOBILE island made from concrete is to be used as a drilling platform for oil off the coast of Alaska. Nippon Kokan KK (NKK) in co-operation with Mitsui, has won the contract to build the floating island.

It will be used for work in the frozen Beaufort Sea, off Alaska by GMDI, a subsidiary of Global Marine based in Texas.

The concrete island drilling system will measure more than 312 feet long and 235 feet wide and just short of 100 feet in height. This massive structure will weigh something in the region of 36,000 tonnes.

The plan is to build the island in three sections. The first will be a steel mud base to sit on the sea bed, the second a concrete structure to sit on the mud base and the final upper steel deck which will house the drilling equipment and living quarters.

The work is scheduled for completion next May. The structure will make use of a special low temperature steel developed by NKK which can be used at temperatures lower than -50 deg C.

The company says that compared with traditional gravel based islands, the mobile concrete platform is cheaper to install and operate, survives the climate better and can be moved to other locations.

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WORLD TRADE NEWS

NEI, India to hold talks over power station difficulties

By JOHN ELLIOTT IN NEW DELHI

TOP LEVEL talks are to be held in Britain next month to try to solve technical and price differences which have caused NEI (Northern Electrical Generating Industries) to fall about three months behind schedule during the first year of its five-year £230m contract to build India's Rihand power station.

Mr A. K. Sah, chairman of India National Thermal Power Corporation (INTPC), is flying to London and Newcastle on October 10 to talk with NEI. Both corporations agree that prospects for completing the power station on time depend on major outstanding difficulties being resolved during this visit.

Neither Mr Sah nor senior executives of NEI who were in Delhi last week for an international energy conference, wants a formal confrontation at this stage, despite some sharp differences between their staffs.

For both organisations, the contract is a joint venture. It has involved the NTPC in a turnkey contract for a complete power station subject to detailed and regular controls, instead of placing several individual contracts.

GEC and Babcock from the UK are acting as major subcontractors to NEI.

British government officials have played a key role in negotiations on the contract throughout the past year, and are now trying to help resolve the differences.

In the 12 months since the contract was signed, the two

Italians to expand Saudi network

By Lance Keyworth in Helsinki

AN ITALIAN telecommunications group, led by the state-owned company Stet, has won a contract worth more than \$200m for the expansion of the telecommunications network in Saudi Arabia.

The contract was controversial, partly because of all the work being placed outside India. Several countries are watching the progress, hoping NEI performs well enough for India to consider placing further similar orders abroad in the future.

The U.S. is the latest of a number of countries expressing interest in obtaining orders for some large power station contracts in India such as Kahaon in Bihar, Muradnagar near Delhi and Manguru in Andhra Pradesh.

At present the programme for some of the power stations has been slowed down because of rupee shortage, and because India does not want to build excessive foreign debt for repayment in the 1990s. But the performance of NEI at Rihand is likely to have an impact on debates within the Indian Government about the wisdom of placing single contracts with foreign companies. It will also have a major impact on the reputation of British industry in India.

In the past, India has usually built its power stations with World Bank aid and has obtained competitive inter-

SPEY MARK 807 TO BE USED IN TACTICAL JET FIGHTER

Rolls-Royce in Italy, Brazil engine accord

By MICHAEL DONNE, AEROSPACE CORRESPONDENT

ROLLS-ROYCE has signed with the Italian Ministry of Defence an agreement worth potentially many millions of pounds for the manufacture and assembly of parts of the military Spey Mark 807 jet engine in Italy.

The first flight of the AM-X

is set for 1984, with deliveries

of production aircraft in 1987.

Work on the aircraft is being

undertaken in Italy by Aerialia

and Aermacchi, and in Brazil

by Embraer.

The AM-X is a single-seat,

single-engined tactical close air

support and reconnaissance

aircraft. Although primarily

destined for the Italian and Brazilian air forces, both countries are hoping for substantial export contracts throughout the Third World.

The Rolls-Royce agreement

was signed in London last

week by representatives of the

UK company and the Italian

Ministry of Defence.

The engine involved is the

Spey Mark 807, a non-reheated

turbo-fan with a take-off thrust

of 11,030 lbs. Rolls-Royce

believes that it will have ex-

tensive applications in other

military aircraft besides the AM-X.

Under the AM-X partnership agreement, six prototypes aircraft are being built, with two airframes for static and fatigue testing. Alfa Romeo is also involved with Fiat Aviazione in the assembly of the engines.

In the Italian air force, the

AM-X is intended to take over

duties currently performed by

four different aircraft types:

the G-91 in close-support roles,

the G-91Y interdictor, and the

Lockheed F-104G strike aircraft.

McDonnell to promote Australian tourism

By COLIN CHAPMAN IN SYDNEY

THE AUSTRALIAN Government is about to sign an agreement with McDonnell Douglas whereby the St Louis-based aerospace company undertakes to market Australia as a tourist destination and provides "support and assistance" to the Australian Tourist Commission as an offset to the Royal Australian Air Force's purchase of 75 FA18 tactical fighter aircraft. The fighter deal is worth \$3.4bn.

Most Australian purchases of overseas aerospace or trans-

port equipment is normally accompanied by offset conditions, but usually the work is carried out in Australia. This is the first time that tourism has been used as a barter in an offset deal.

The Minister for Tourism, Mr John Brown, also announced yesterday a substantial package to revitalise Australia's tourist industry, which presently contributes \$10bn, or between 5 and 6 per cent of GDP, to the national economy, and accounts for 375,000 jobs.

Mr Brown plans to double the

number of tourists visiting

Australia, and has increased

the budget of the statutory

Australian Tourist Commission (ATC) by 75 per cent in order

to try and achieve it.

Much of the money is to be

spent on a powerful international television campaign

featuring the comedian Paul

Hogan, who has given his services for nothing, and who will

replace the ubiquitous koala

and the kangaroo as the

country's major standard

bearer.

The ATC is to open new

Du Pont's Japan film deal

By JOHN WICKS IN ZURICH

TOYO PRODUCTS, a joint-venture subsidiary of the DuPont group and Toray Industries of Japan, is to build a plant for the manufacture of DuPont's polyimide film

"Kapton." The factory, to be set up on Toray premises near Nagoya, will have annual capacity of some 250 tonnes and raise worldwide production potential for the high-resistance

circuits.

Call for Opec to end distortions in oil price differentials

By RICHARD JOHNS

THE Organisation of Petroleum Exporting Countries needs to evolve a system of price variations for different crudes properly reflecting market realities if the stability of the oil market is to be maintained.

This is one of the conclusions of the second report of an influential group of experts, long associated with Opec. The Research Group on Petroleum Exporters' Policies, formed last year, which includes two former Opec secretaries-general, warned last year (four months before actual rates were cut by \$5) that a "price shock" might have to be administered to members exceeding output quotas and offering discounts if discipline was to be restored.

Now the group sees a proper alignment of differentials as an absolutely vital element in long-term market stabilisation. They reckon that a "distorted pattern" of price variations is putting pressure on the quota system, under the production sharing agreement drawn up in March in their report which is published in the latest edition of the Middle East Economic Survey.

The authors see some important medium-to-heavy crudes especially as being underpriced in relation to the Arabian light reference, with an official selling price of \$29 per barrel, judged by the value of refined products after the cost of shipping and processing crude has been taken into account (see table).

But they reckon that some of the premium light crudes including Brent Blend, the North Sea reference, and Nigeria's Light as also being undervalued.

DIFFERENCES BETWEEN REALISED AND OFFICIAL PRICES

	(\$ per barrel)	mid-March	mid-May	mid-July	mid-August
Opec crude					
Arab heavy	1.59	1.17	1.40	1.08	
Iran heavy	1.15	1.34	1.24	0.93	
Iran light	0.56	0.79	0.67	0.62	
Forcados	1.15	1.70	1.45	2.10	
Bonny light	0.45	1.11	0.41	1.30	
Non-Opec crude					
Maya	3.69	3.11	3.52	2.45	
Alaska North Slope	2.52	2.75	3.00	3.35	
Ethiopia	0.59	0.65	0.69	1.21	
W. Texas Intermediate	1.17	1.65	1.42	1.93	
Brent	0.18	0.75	0.53	1.07	
Ekofo	0.25	0.85	0.61	1.15	
U.S. Gulf values only. 1 Cracking netback values only.					

Source: Research Group on Petroleum Exporters' Policies

It is suggested that a 50 cent per barrel differential might be considered reasonable but many crudes recently have been significantly beyond this limit.

Some member countries will find that they are producing below their quota levels while others will feel extremely constrained by their quota

restriction.

Since the beginning of April the collective ceiling on Opec output has been 15.5m b/d, though recently the rate has been up to 16 m b/d above.

At its meeting in Vienna on September 15, Opec's market monitoring committee recommended the limit be kept in the fourth quarter despite rising demand.

The group's report gives support to the view of some analysts that the spot market prices for premium North Sea and African crudes such as Brent and Bonny have held up well against official selling prices because they are under-

estimated.

Mr Frank Perez of Venezuela and Mr Abdellah Chouaib, another member of the group, are Mr Nourdin Al Leoussi, vice-president of the Algerian state oil corporation Sonatrach, Dr Michael Mather of Bath College, Oxford, and Mr Ian Seymour, executive editor of the Middle East Economic Survey.

Or Frank Perez of Venezuela and Mr Abdellah Chouaib, another member of the group, are Mr Nourdin Al Leoussi, vice-president of the Algerian state oil corporation Sonatrach, Dr Michael Mather of Bath College, Oxford, and Mr Ian Seymour, executive editor of the Middle East Economic Survey.

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UK NEWS

INDUSTRIAL HEARTLAND NOW IN DECLINE

Low pay hits West Midlands

BY BRIAN GROOM, LABOUR STAFF

WAGE LEVELS in England's West Midlands, the highest in Britain 10 years ago, are now among the lowest, and there is widespread poverty in the region, the Low Pay Unit, a pressure group which campaigns against what it considers low pay, says today.

Its report charts the decline of what was once Britain's prosperous industrial heartland and shows how rising unemployment - the West Midlands jobless rate was once almost the lowest in Britain but is now the fifth highest of the country's 10 regions - and falling relative pay levels have accompanied each other.

Ten years ago, male manual workers in the region - the centre of Britain's motor industry - had the highest average earnings of those in any of the regions; by 1982 they were third from bottom, the re-

port says. Their earnings had fallen by 8 per cent in relation to the national average.

Basing its findings on the official new earnings surveys for 1972 and 1982, the report also shows that the average wage of non-manual male workers in the West Midlands fell from second in ninth in the regional "league table." For women manual workers, the fall was from second place to seventh.

Non-manual women workers have escaped the worst effects, falling only from third to fourth. All these declines in relative earning power are against a background of rising unemployment. The West Midlands once had almost the lowest unemployment total in Britain, but now has the fifth highest.

The unit argues that, measured against its definition of low pay (£30 a week in 1982), one in six men

General Accident to close offices

By Eric Short

THE GENERAL Accident Group, the UK's largest motor insurer, is about to announce a major programme of rationalisation and reorganisation of its UK operations, which could result in the closure of as much as one third of its branch and sub-office network (around 60 offices).

A statement from the group is issued yesterday to counter rumours of a massive branch shutdown, confirmed that it was finalising details of the review and that staff were fully aware that reorganisation discussions were taking place. Meetings were being held this week with the trade unions representing the

staff. The company refused to give any indication of the number of offices due for closure or the numbers of staff involved. It admitted to the need for some redundancies, although it hoped that redeployment and natural wastage would mean that the number of layoffs would not be high.

However, Mr Peter Kennedy of the Association of Scientific, Technical and Managerial Staffs, which represents about half of General Accident's employees, said that talks so far had been of a tentative nature.

Union representatives at today's meeting would be seeking full details of the management's plans and an assurance that there would be no redundancies.

Government issues £1bn tap stock

By Our Financial Staff

THE GOVERNMENT took advantage of the market's hopes for an interest rate cut to announce a £1bn Treasury stock issue yesterday.

The issue carries a 0.75 per cent coupon with a minimum tender price of £96.50 per £100 of stock. It matures in 1988 but can be converted between 1984 and 1986 into 9% per cent long-dated stock.

The previous short-dated tap stock was exhausted on September 21.

Proceeds of the issue will be used to meet the Government's cash requirement and to refinance maturing stock. Payment is in three installments by December 5.

The Bank of England continued to keep the markets on tenterhooks yesterday by leaving its dealing rates unchanged. Although this caused some disappointment, the good U.S. money supply news over the weekend has strengthened the conviction that a cut in base rates is still likely.

Unions at Luton, Ellesmere Port and Dunstable will recommend rejection of the 18-month offer, which the company says is worth 7.7 per cent in cash terms. But stewards are divided on the next step.

Brokers warned on fighting key changes

BY JOHN MOORE, CITY CORRESPONDENT

SIR NICHOLAS GOODISON, the Stock Exchange chairman, held a private meeting of more than 100 senior partners from the stockbroking and jobbing firms in the stock market yesterday in an effort to head off possible opposition to proposals which will lead to the most extensive reforms in the stock exchange's history.

Sir Nicholas told the meeting that a vote which will bring key constitutional changes to the market was "not only impending but important."

Concern is mounting in the market about the extent of the changes which will result from the agreement between the stock exchange and the Government in June.

The Government has agreed to exempt the stock exchange from the legislation covering restrictive practices, provided it admits outsiders to its system of government and regulation and dismantles by stages its rules establishing minimum commission scales for transactions in the market.

Stock exchange members are meeting on October 11 to vote on the admission of outsiders to its

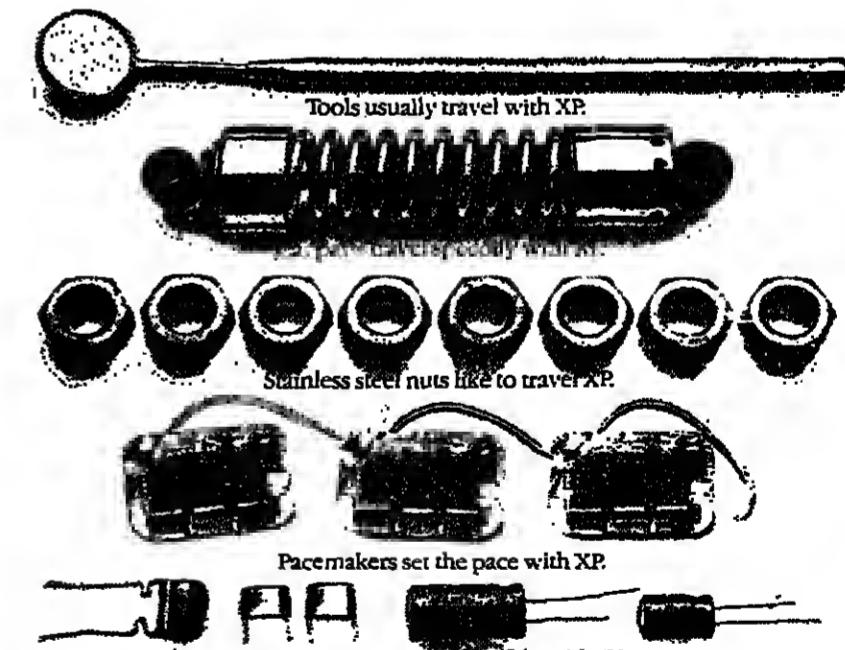
meeting on October 4 for comments from all senior partners by October 4.

Vauxhall strike in balance

VAUXHALL motor workers at Luton in Bedfordshire are to be urged by shop stewards to strike from Friday. But the chances of the 14,500 manual workers at all three British plants of the General Motors subsidiary starting an all-out stoppage over the company's pay offer are in the balance.

Unions at Luton, Ellesmere Port and Dunstable will recommend rejection of the 18-month offer, which the company says is worth 7.7 per cent in cash terms. But stewards are divided on the next step.

Abersoch	Energy Communications	0244-729845	Fife	0852-364645	Luton	0524-590345
Aberystwyth	Ericsson	0224-639408	Glasgow	041-2220297	Manchester	061-622-2711
Alcester	Nobis Telecom	0789-773693	Gloucester	048-5632142	Merseyside	0872-800040
Bath	Cost-Itall	0225-835759	Gwynedd	0481-24211	Nottingham	061-25-0011
Belfast	Adit	0234-835740	Hereford	041-242018	North East	0632-514583
Birmingham	General Telephone Systems	021-7634811	Hertford	0707-653255	Nottinghamshire	0603-403388
Birmingham	Rotophone	021-5433579	Huddersfield	0435-4549	Nottinghamshire	0603-403388
Brighton	Amstrad	0273-629404	Leeds	0435-4549	Nottinghamshire	0603-403388
Bristol	Telecommunication Supplies	0273-629404	Leicester	0533-234511	Nottinghamshire	0603-403388
Bristol	Response West	0272-297371	Lancaster	0505-415320	Nottinghamshire	0603-403388
Bristol	Robophone	0272-297371	Liverpool	01-898-0527	Nottinghamshire	0603-403388
Bristol	Robophone	0272-297371	London East	01-472-42232	Nottinghamshire	0603-403388
Bristol	Robophone	0272-297371	London East	01-472-42232	Nottinghamshire	0603-403388
Cambridge	Adit	0276-65777	London North	01-469-251	Nottinghamshire	0603-403388
Cambridge	Direct Communications	0480-65300	London North	01-469-251	Nottinghamshire	0603-403388
Cardiff	Amstrad	0222-258405	London North West	01-452-9331	Nottinghamshire	0603-403388
Cardiff	Restone Communications	0222-258405	London North West	01-452-9331	Nottinghamshire	0603-403388
Chelmsford	Communications & Technical	0424-656503	London South East	01-827-9172	Nottinghamshire	0603-403388
Chesterfield	Industrial Telephone Systems	0642-707512	London South West	01-638-1772	Nottinghamshire	0603-403388
Chesterfield	Industrial Telephone Systems	0642-707512	London South West	01-638-1772	Nottinghamshire	0603-403388
Cornwall	Communications Systems	0209-8664628	London West	01-637-1642	Nottinghamshire	0603-403388
Cornwall	General Telephone Systems	031-7232553	London West	01-637-1642	Nottinghamshire	0603-403388
Edinburgh	Communications Systems	0382-215103	London West	01-723-4036	Nottinghamshire	0603-403388
Edinburgh	Celmac	0252-711053	London West	01-402-7036	Nottinghamshire	0603-403388
Farnham						



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UK NEWS

MORE ULSTER TERRORISTS RECAPTURED

Urgent inquiry into Maze escape

BY BRENDAN KEENAN IN DUBLIN

THE CHIEF Inspector of Prisons, Sir James Heslop, met the Northern Ireland Secretary, Mr James Prior, after arriving in Belfast yesterday to conduct an urgent inquiry into Sunday's mass escape from the Maze Prison, where most of Northern Ireland's convicted terrorists are held.

Sir James will want to know how it was possible to acquire guns, despite extensive search procedures; how prisoners could take over their cell block without the knowledge of staff; and why the breakout was not intercepted by Army patrols.

Two more escapees were recaptured yesterday in South Down, about 30 miles from the prison; 17 of the 33 prisoners who broke out are still at large. They are believed to include nine convicted killers and some of the Provisional IRA's most senior men, among them Kevin Barry Att, recently convicted of murdering, on the testimony of po-

lice informer Christopher Black, an assistant governor of the Maze.

Others include Brendan McFarlane, who led the abortive hunger strike in 1981, and who is believed to be one of the IRA's most senior men. He is serving life, with a minimum recommendation of 25 years, for killing five people in a bar in Belfast's Protestant Shankill Road.

Joseph Curry, who also escaped, was described at his trial as the leader of the IRA's South Derry brigade, and is serving 25 years for the murder of a member of the Ulster Defence Regiment.

One of the biggest security operations ever mounted was taking place on both sides of the Irish border yesterday to try to recapture the remaining fugitives. Police in Northern Ireland said almost every available member of the security forces was taking part in the operation.

The special task force of the Irish Police was drafted in to help in the

search and Dr Garret Fitzgerald, the Irish Premier, has asked for hourly briefings.

Meanwhile, the Northern Ireland Secretary rejected allegations by the Reverend Ian Paisley that metal detectors used to check for guns had been tampered with. Mr Paisley indicated that he believed the prisoners had help from inside the jail.

Mr Prior met deputations from Mr Paisley's Democratic Unionists and the official Unionists yesterday. He rejected calls from Mr Paisley for the resignation of the Minister in charge of prisons, Mr Nicholas Scott.

The escape is a blow to the IRA, where they are under severe pressure from the security forces and from the evidence of "super grasses" (police informers). Mr Prior admitted that the escape would give them some temporary encouragement, but said the reversals

they had already suffered should not be underestimated.

The dilemma at Northern Ireland's Maze Prison has always been to strike a balance between security needs and a humane regime for hundreds of young men serving long sentences. Over 20 per cent of the 800 prisoners are serving life sentences, compared with only 5 per cent in prisons in Great Britain.

The protests and hunger strike, which made the prison a household name around the world, were centred on this issue. The prisoners demanded their own clothes, free association, an end to body searches and segregation of Republican from Loyalist prisoners.

The escape may blunt the edge of Loyalist demands for segregation of Republican and Loyalist prisoners. The breakout was organised in an area where only Republican prisoners are held and they were able to overpower warders in their block and hold them for some time

North Sea price cuts suggested

By Ray Daffey, Energy Editor

THE GOVERNMENT should consider cutting the price of North Sea oil to UK consumers, according to an energy policy document published yesterday by a working party of the Social Democratic Party (SDP).

The report says that as international oil prices did not reflect true market conditions - they were set either by a "producers' cartel" or by "cut-throat competition" - the UK should investigate the merit of changing itself a preferential rate for domestically produced oil.

The report continued: "Government should ensure that our valuable resources of oil are used to maximise the benefit to the country as a whole rather than to maximise the benefit to the international oil companies."

Dr Dickson Mabon, a former Labour minister and one of the report's 10 authors, said that until now oil prices had always been reflected at the petrol pumps. Both Labour and Conservative governments had run away from the possibility of introducing a preferential oil price for internal consumption, even though the principle had been adopted in other countries.

"At least we should think about the possibility, even if, in the end, we reject it," he said.

The report, the first in a series of SDP discussion documents, puts forward a 12-point plan for UK energy strategy. As a matter of priority the authors advocate a drive towards greater energy conservation.

An Energy Strategy to the 21st Century, now working party on energy, SDP, Open Future Committee, Cowley Street, London, SW1P 3NR.

New oil find confirmed in Galley field

By Our Energy Editor

THE DISCOVERY of oil-bearing rock more than 13,800 ft below the sea bed in the Galley oilfield, 120 miles north-east of Aberdeen, has been confirmed by Occidental Petroleum (Caledonia).

During an eight-hour test oil flowed at a stabilised rate of 6,515 barrels a day. The oil was light, with a specific gravity of 43.6 degrees API (American Petroleum Institute).

It was the second well in an exploration and appraisal programme undertaken on block 15/23a by Occidental as part of an agreement to obtain a stake in the concession. The first well was abandoned having produced only minor oil shows.

Occidental said the Galley geological structure was complex and further drilling and seismic work would be required before any development programme could be considered.

Axe big spenders, Thatcher told

By ROBIN PAULEY

PUBLIC SPENDING can be kept under control only if Mrs Margaret Thatcher regularly sacks spending ministers who fail to produce substantial savings, says one of the Government's leading economic supporters.

It is incomprehensible that spending ministers who fought a general election committed to the Government's strategies should press for more public resources instead of offering new savings in order to bring forward tax cuts, Professor Patrick Minford says in Liverpool University's latest economic bulletin.

Professor Minford, an outspoken supporter of the Government's medium term financial strategy, says tax cuts are not "just a nice luxury in hand out to the electorate like sweets at a school bazaar."

They are, he says, vital to the second part of the Government's strategy - the creation of employment and growth through greater

incentives especially for those in the so-called unemployment trap.

Professor Minford's comments come as Mr Peter Rees, Treasury Chief Secretary, is in the middle of a campaign to persuade Government departments to reduce 1983-85 demands so that he can keep the £126.4bn public expenditure plans on target.

He must achieve reductions of £2.5bn through a mixture of cuts, creative accounting and perhaps a small draw on the contingency reserve.

The overbidding of £2.5bn by Mr Patrick Jenkins, Environment Secretary, already includes an extra £500m for local government current expenditure.

Mr Jenkins may have to give cuts on the urban programme, a key target in the view of Mr Nigel Lawson, Chancellor of the Exchequer, and around £500,000 of cuts in the housing capital programme have already been decided.

Professor Minford, however, says there is no sign yet that all spending ministers are seriously examining radical ways of cutting expenditure. He says: "No doubt flushed with the prospect of another four or five years of power, some of them give every sign of relaxing complacently into the grooves of existing programmes and habits."

Only the Prime Minister can prevent this behaviour by sacking the guilty ministers. The alternative would be "continued botched cuts on top of an uncontrollable upward drift in public spending," Professor Minford warns.

His research group in macroeconomics, however, retains its optimistic forecast for the economy, assuming interest rates will fall and that the public sector borrowing requirement will, in fact, be curbed rigorously.

Quarterly Economic Bulletin, Liverpool Research Group in Macroeconomics, University of Liverpool.

France cuts purchases of British steam coal

By MAURICE SAMUELSON

FRANCE, the leading overseas customer for UK coal, is to cut its purchases from Britain this year by 400,000 tonnes, worth up to £15.2m to the National Coal Board.

The board had been expecting to supply 1.2m tonnes of steam coal to Electricité de France (EdF) in this financial year. But falling electricity sales and the growing use of nuclear power have forced EdF to declare *force majeure* on some of its coal contracts with overseas suppliers.

That particularly affects Britain, Poland, South Africa and Australia.

The British supplies come mostly from pits in the Midlands and are exported on French ships via the east coast port of Immingham.

UK air traffic rises

By MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE IMPROVEMENT in overall UK air traffic earlier in the summer continued during August, with the British Airports Authority reporting a gain of 4.6 per cent to nearly 5m passengers at the seven airports it controls.

Together with an even faster growth already noted during the early part of September, this is regarded by the authority as further evidence that the recession in air transport is ending.

The authority believes that for the summer as a whole, the overall

Technically, the French have merely deferred the 400,000 tonnes to a future date, rather than cancelling them. Nevertheless, it might mean an important loss of revenue for the hard-pressed coal board. Official prices for steam coal are up to £38 a tonne, although there have been frequent reports of large discounts being offered to secure orders.

In 1982-83, Britain exported 7.1m tonnes of coal compared with the previous year's 9.4m tonnes, which was the highest total for about 20 years.

EdF's decision means that the best overseas customer for British coal is now Finland, which has an order for 1m tonnes a year of power-station coal.

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Occidental said the Galley geological structure was complex and further drilling and seismic work would be required before any development programme could be considered.

Plant contract to go abroad

BRITISH electrical companies have been told that their tenders for about £2m worth of key electrical work at a £150m paper plant planned in North Wales by United Paper Mills of Finland have been passed over in favour of foreign suppliers, writes Andrew Fisher.

Three UK concerns - GEC Industrial Controls, Harland Simon, and PPD Engineering, part of Allen Bradley - bid for the work to supply electrical equipment to run the paper machine and winders.

European company will obtain the business.

But Stromberg of Finland, ASEA of Sweden, and Siemens of West Germany are thought to be in the running. UPM is likely to decide in the next couple of weeks.

With combined assets of some US \$360 billion and 39,760 employees, UNICO BANKING GROUP is one of the world's largest and most broadly based financial groups.

The European Source for Multimarket Finance

Besides offering comprehensive universal banking facilities, the Group provides a number of specialized services ranging from leasing and forfaiting to East-West Trade packages and investment counseling.

UNICO BANKING GROUP is a one-stop source for guidance to the specialized capabilities of its banks and subsidiaries.

UNICO members:

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(The Netherlands)

These six banks have established the Luxembourg-based UNICO INVESTMENT FUND and in Vienna the UNICO TRADING COMPANY, specialized in East-West Trade.

For information contact a partner bank or the Standing Secretariat of the

UNICO BANKING GROUP,

N.Z. Voorburgwal 162-170,

NL-1012 SJ Amsterdam,

Telephone (20) 222252,

Telex 15 412.



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UNICO BANKING GROUP



HERE IS THE NEW OLIVETTI ELECTRONIC TYPEWRITER

1,000,001

Five years ago Olivetti introduced the world's first electronic typewriter.

Now, one million machines later, we have a new one to complete our range of typewriters and word processors.

It comes in two versions differing largely by the size of their memory store.

The ET111 and ET115.

We've thrown out the last remnants of the mechanical age. Both machines are totally electronic.

Both are extremely competitively priced.

Rest assured that whatever happens in the automated office in the next decade, these new typewriters will form a key part.

You can upgrade them quickly and cheaply into full blown word processors which will communicate with other computers.

But above all, you will know that your new Olivetti is even better than the best selling electronic typewriter in the world.

The old Olivetti.

olivetti

Please send me details of the: ET 111 ET 115

Name _____ Position _____

Company _____

Address _____

Tel: _____

Send to Valerie Belfer, British Olivetti Limited, 86-88 Upper Richmond Rd., Putney, London SW15 2UR. Tel: 01-785 6866.

Impala Platinum Holdings Limited

(Incorporated in the Republic of South Africa)

	1982/3	1981/2
Consolidated Profit for year	174.9	154.9
Profit after taxation and lease consideration	91.6	89.4
Dividends paid per share	49.0	43.2
	85 cents	75 cents

STATEMENT BY THE CHAIRMAN, Mr. E. PAVITT

MARKET

The automobile industry in the United States and Japan increased its platinum consumption and more favourable levels of demand are indicated in the foreseeable future. Proposed legislation in Western Europe to control exhaust emissions offers the prospect of an important market, but it is unlikely to be significant before 1985. The Japanese jewellery industry exhibited a strong demand although there was evidence of consumer stocks being drawn down at the higher price levels. It is anticipated that the Japanese jewellery industry and the electronics industry worldwide will continue to absorb substantial quantities of platinum, whilst the present relatively small speculative/investment physical demand is expected to show a continuing increase.

A more closely controlled supply of palladium from the USSR eventually resulted in the free market price rising to more realistic levels. The Impala producer price for palladium was increased to \$130 in January 1983 in response to this development.

OPERATIONS AT THE MINES AND REFINERIES

Throughout the year operations remained at the reduced level reached a year ago. Advantage was taken of this situation to carry out preventive overhauls to several major items of equipment, to intensify training programmes, and to improve certain underground ore and material handling facilities. Worthwhile improvements in underground labour utilisation were also achieved during the period.

Construction work at the cobalt recovery plant was completed, the plant commissioned and brought to production.

FUTURE OUTLOOK

Some increase in consumption of platinum by traditional users is expected in this financial year, but at this stage we do not foresee significant profit improvements in the period to June 1984 due to the effects of inflation.

We intend to maintain our policy of supplying precious metals to end users under contracted terms which ensure prices which are reasonable and stable.

Johannesburg, 6 September 1983

The above has been extracted from the Chairman's Statement. Copies of the Annual Report including the full statement may be obtained from the London Secretaries, Gencor (U.K.) Limited, 30 Ely Place, London EC1N 6UA.

CONTRACTS

GEC wins £16m order from British Telecom

GEC telephones and switching systems worth £16m have been ordered by British Telecom from the telephone division of GEC information systems. Orders include one worth some £8m for "Ambassador" electronic switching systems bringing the total value of orders received for this system since 1979 to £20m. A larger system in the GEC range of electronic switching systems has also been ordered. The "Tudor" ESS has a capacity of one to five exchange lines and up to 20 extensions. Large quantities of pushbutton telephones—the "Statesman" and "Ambassador" models—were also ordered.

A contract for a 200 tonnes a day sulphuric sulphuric acid plant has been placed by the Générals des Garrigues et des Mines "GECAMINES" of the Republic of Zaire to SIM-CHIM, UK (a Simon Engineering company). The plant, which will produce an order of sulphuric acid units, is to be built on an existing complex at Shinkuru, near Lissi in Southern Zaire, and is one of a number of new plants scheduled for this site. The total value of this turnkey project, which will be financed by the EEC, is nearly £100m, and is scheduled for completion in 1986.

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SAUNDERS VALVE COMPANY, Bedford-based TEMPICO INTERNATIONAL is investing £3.5m in a cold store and regional distribution centre, the largest of its kind in the UK, at Monkspath, Solihull. The development is due for completion next summer. The work is being carried out by the Midland company, Smith and Partners, with Tempico, a division of which will be leased by Birds Eye's Wills at Monkspath, Solihull. The development is due for completion next summer.

TESLA ENGINEERING, Stourbridge, has won an order worth £21m from the European Organisation for Nuclear Research (CERN), the contract is for the main sextupole electromagnets for the LEP (large electron positron) project. Tesla will be supplying a total of 510 superconducting units of two different types, with an option for a further 100 units.

The Tesla magnets for LEP are designed to exceptional tolerances to give the high quality magnetic field distribution that the application requires; they are to be used in control and adjust focusing the beams of electrons and positrons that will circulate inside a vacuum chamber around the LEP machine.

Two orders totalling over £500,000 have been won by Dobson Park company RICHARD SIMON & SONS, Nottingham. One is for a milk powder packing line for Nestle of Croydon, and the other is a weighing, packing and palletising plant for F. & K. Ferndales, Sleaford, Lincolnshire.

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Mr. Ed Sherman, managing director, ACT (UK) and International Group

executive director of Nalco since 1979, and will continue in the same role. Prior to his new appointment he was site manager at ICI's Castner Kellner works.

Mr John L. Crooks of Beverley has been elected president of the BRITISH VETERINARY ASSOCIATION.

Merlin chose York
Why don't you?

British Telecom chose York. And to launch Merlin in the North, And it's not a coincidence that York has excellent facilities for technically based businesses who want to relocate.

Why not contact Tony Bennett on York (0904) 55611 to find out more?

York
-a beautiful place
for technology

COMPANY NOTICES

PLANT AND MACHINERY



By Order of A. M. Roman Esq., F.C.A. and P. E. Baldwin Esq., F.C.A., Joint Receivers and Managers of Alfred Herbert Limited and Tooling Investments Limited, Stoney Stanton Road, Coventry

WALKER WALTON HANSON
Will Sell by Auction on the Above Premises on
Monday 10th October to Friday 14th October 1983
at 9.30 a.m. each day

**A VERY LARGE RANGE OF MACHINE TOOLS
TOOLING, MEASURING EQUIPMENT
OFFICE & CANTEEN FURNITURE
VEHICLES, INTERNAL TRANSPORT, ETC.**

ON VIEW: Wednesday, Thursday and Friday, 5th, 6th and 7th October, 1983, from 9 a.m. to 4.30 p.m. and also on the Mornings of the Sale from 9 a.m.

CATALOGUES: (Price £1.00) from the Auctioneers, Walker Walton Hanson, Dept. AH, Byard Lane, Bridlesmith Gate, Nottingham NG1 2GL. Tel: Nottn. (0602) 54272 or 586161.

The Board has arranged for an Agent to be available London until 22nd October, 1983, to receive bids on behalf of the Tel Aviv Stock Exchange and the Tel Aviv Stock Exchange Board in London. The Standard London Stock Exchange has agreed to receive bids on behalf of the Tel Aviv Stock Exchange during the period 22nd October, 1983. Shareholders of the Company should consult the letter of the Board of Directors which is acronuted to each.

S. G. WARBURG & CO. LTD.
London EC2P 2EAA
27th September, 1983.

DOME PETROLEUM SUS 50 MILLION FLOATING RATE NOTES 1982-89

For the six months September 21, 1982 to March 20, 1984 the notes will carry an interest rate of 7.76% per annum.

The interest due on March 21, 1984 against coupon no 4 will be SUS 5.27.67 and has been computed on the actual number of days elapsed (1182) divided by 360.

The principal paying agent
SOCIETE GENERALE
ALSACIENNE
DE BANQUE
15, Avenue Emile Rieger
LUXEMBOURG

NOTICE TO HOLDERS OF EUROPEAN DEPOSITORY RECEIPTS (EDRS) IN TAMARIN SECURITIES LTD. LTD.

NOTICE IS HEREBY GIVEN THAT A DIVIDEND WILL BE PAID TO HOLDERS OF PENDING DEPOSITORY RECEIPTS, REGISTERED AS AT 31ST AUGUST 1983, AND THEREAFTER (THE "DIVIDEND DATE") IN THE AMOUNT OF SUS 5.27.67, WHICH IS THE EQUIVALENT OF SUS 1.00, IN ACCORDANCE WITH THE TERMS OF THE DEPOSITORY RECEIPTS.

NOTICE IS ALSO GIVEN THAT A FREE DIVIDEND WILL BE PAID TO HOLDERS OF PENDING DEPOSITORY RECEIPTS, REGISTERED AS AT 31ST AUGUST 1983, AND THEREAFTER (THE "DIVIDEND DATE") IN THE AMOUNT OF SUS 1.00, IN ACCORDANCE WITH THE TERMS OF THE DEPOSITORY RECEIPTS.

Furthermore, it has been declared that the shareholders of the Luxembourg branch of Tamarin Securities Ltd. Ltd. will receive a dividend of SUS 5.27.67 per share on the 31st August 1983, and thereafter, in accordance with the terms of the depository receipts.

CELTIC BANK, N.A.
London, Dempsey
September 27, 1983.

WANTED
Complete second-hand plants for manufacture of tractor-driven agricultural implements and sheet metal parts for automotive industry.
Write Box G9131, Financial Times, 10 Cannon Street, London EC4P 4BY

WANTED
Complete second-hand plant for manufacture of rubber tyres and tubes for tractors, trucks, motor cars and motor cycles.
Write Box GR130, Financial Times, 10 Cannon Street, London EC4P 4BY

COMPANY NOTICES

EUROFIMA
US\$40,000,000
Floating Rate Notes 1979/89

The rate of interest applicable for the six months period beginning on 27th September 1983 and set by the reference agent is 10.1% annually i.e. US\$515.52 per bond of US\$5,000.

**2 x 1,000 KVA
MOBILE GENERATING
SETS**
UNUSED

Ames Exporting Co. Ltd.
TETBURY
Tel 0666 52312 Telex 43742

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SUPPLIER OF THE YEAR AWARD

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BRITISH QUICK PRINT INDUSTRY

1983



Is this how your stomach feels when you start a new leasing transaction?

When you arrange a new leasing transaction it can be a nerve-racking experience; after all, it's not something most people do every day.

Unfortunately, it's not something most banks do every day, either.

So you've every right to be nervous. Unless you come to Bank of America.

Being a leader in this field, we have recently been responsible for arranging £160,000,000 worth of assets for British industry. The transactions ranged from leasing commercial

vehicles to semi-submersible drilling rigs, and our roles ranged from lease advisor on large and small transactions to placement agent.

A volume and range of transactions as wide as this means that we have day-to-day contact with the market, and that, unlike some other organisations, we can provide you with all the facilities you require ourselves.

It also means that we really do know what's going on; we know just what lessor will suit a new lessee, just

how to judge the rental profile, terms and conditions inherent in a leasing package, and exactly how to make the most efficient use of the current tax and legal environment.

If you're considering leasing, call 01-236 2010 and ask for the Leasing Services Group. It'll be a lot simpler in the long run.

Look to the Leader.

BANK OF AMERICA 

Tuesday September 27 1983

Micawber at the IMF

THE International Monetary Fund has never held an annual meeting in unhappy circumstances. For the first time in its history, it has had to close its window to loan applicants because its funds are wholly committed.

The Group of 10 are withholding a projected \$3bn (£2bn) bridging loan (and effectively blocking the same sum again from the Saudi "shahans" because they want to concentrate the minds of the U.S. Congress on the urgent need to ratify the already agreed increase in IMF quotas. Given the deeply unhelpful mood of Congress, which is dithering over the ratification and attempting to attach quite unacceptable conditions to it, this is rather like trying to enforce pressure through threats of suicide, but it is probably the best that can be managed. The Fund, like Mr Micawber, must simply hope that something turns up.

In this state of affairs, which could still develop into what Polonius might have called a most farcical tragedy, it seems worth restating what is at stake in the effort to win a secure and orderly future for the IMF. Despite the current drama about bridging loans, quota and borrowing rights, the money is not the most important issue; no proposal on the table would come near to giving the IMF enough resources to "solve" the problem of international debt. As long as the Fund is essentially lead manager in a series of refinancings, the exact size of its own potential contribution is not a matter of life and death.

Co-operative

What is essential is that the Fund should have enough clout—the political clout, just as important as financial weight—to carry on with this lead role. For it is the one multilateral institution with the breadth and resources to do it, despite the imaginative interventions of the Bank for International Settlements. Failing a multinational approach, it would be a matter of weeks or even days rather than months before the bilateral haggling set in.

The Fund, which constitutes as a kind of financial cooperative, has been-handed among its members as its fundamental operating rule; and however much members may complain about the conditions attached to IMF support, they remain in membership. They can end up preaching greater generosity to richer members, as a form of enlightened self-interest, but they remain members themselves.

Thus the efforts of the U.S. Administration to enforce tighter restrictions on the Fund's operations are controversial, but within the rule.

A surfeit of grants

NOT SO long ago a leading Tory politician had this to say about industrial (and, by implication, regional) policy:

"One man's subsidy is another man's penalty, so if you give vast grants and subsidies to some new factories, you are making life difficult for the rest, the more so. If you tax them, the more so. If more firms can be forced to turn to government for help, which hardly helps self reliance."

The words are Sir Keith Joseph's and while they date from 1975 their point is no less apposite in the light of the outcry in the West Midlands over Lucas Industries' decision to take a £35m high technology investment programme to South Wales. Unlike the West Midlands, South Wales is a development area; the investment will thus qualify for additional government support, as well as being eligible for technology related grants.

Structure

On the face of it there appears to be a contradiction here. It is instructive to ask what respect the present Conservative industrial policy differs from that of the last Labour Government after the departure of Mr Benn from the Industry Department.

No doubt the Tories could argue that the whole structure of subsidies under Labour operated primarily as a social support system. As Sir Keith implied, dependency via subsidies became a way of life for British industrialists who rarely went to the wall in 1975-79 provided they were big enough to raise the spectre of lost jobs, with consequent potential for lost votes.

Outside the lame duck sector, grants became a substitute

for more contentious forms of intervention in industry. As the will to impose dirigiste policies began to wane, an escalation of the subsidy race seemed a convenient, vote-winning approach to industrial and regional policy.

Nobody, in contrast, could accuse the present government of running a comparable social support system for lame ducks, or claim that Mrs Thatcher has balked at contentious decisions affecting industry's survival.

Diluted

But given the Government's apparent radicalism and the lack of serious parliamentary opposition, why is the Industry Act structure unchanged, pruned and new combined Department of Trade and Industry going through verbal gymnastics to justify a Labour-style policy of backing high technology "winners," with all the risks that this entails?

The fact is that the rationale for such an approach has been diluted. And the government now confronts a contradiction that will not go away. Meantime civil servants are considering patch-work solutions, such as more specific targeting, which boils down to a more modest version of the redistributive principle that Sir Keith deplored.

More selectivity has also been canvassed, which in practice means executive discretion and thus uncertainty for industry.

Nothing better illustrates how pressure on public expenditure becomes self-generating. And the irony is that in Lucas's case the grants appear not to have been a crucial factor in the investment decision. Hence, as is the case for outlining both a radical and a Tory policy in the White Paper on regional policy that is due later this autumn.

THE countdown has begun for one of the biggest transfers of public assets to private hands ever made anywhere in the world—the stock market flotation of 51 per cent of British Telecom (BT).

The planned sale—which the Government hopes will realise around £4bn—re-creates a mass of thorny issues which are already deeply pre-occupying Whitehall, the City and BT itself. Solutions must be found quickly if the shares are to be sold within a year's time, as the Government timetable dictates.

The Government believes that privatisation will inject fresh dynamism into BT's commercial performance by substituting the discipline of the stock market for the yoke of Whitehall control. "I'm in the business of opening the doors of business," says Mr Kenneth Baker, Minister for Information Technology at the Department of Trade and Industry.

The efforts of Congress, however, to attach discriminatory amendments to the Fund's rules, barring Communists or racialists from the benefits of membership, are potentially fatal. It is deplorable that the Administration has failed to explain to Congress these facts to Congress and to the American people: statements like "no substitute for political action ahead of it."

Criticism

None of this is intended to imply that the Fund itself and its operations are above criticism. It has fulfilled a vital role in buying time for a more measured approach to the debt crisis. Its success in dragging exposed banks into maintaining their exposure—learning a sharp lesson from its experience in Turkey, where Fund finance was promptly siphoned off—has been central to this achievement. At the same time the Fund can be held partly to blame for the depth of its woes, though in a limited sense, because it did not assert loudly enough during the era of bank recycling that the credit structure being created was rickety, and the pressure for real adjustment far too small.

More important, the Fund has not played much part in fostering discussion of long-term solutions; indeed, it seems positively to obstruct discussion of debt restructuring, preaching a philosophy which, like its present circumstances, recall Mr Micawber: "Income Twenty pounds, expenditure £18 pounds, ought and six; result, misery."

Although the Fund argues that this approach is a simple matter of realism, and that its demands are aimed to limit expenditure to available finance, this is too narrow a view.

First, different forms of outside capital—fixed interest, floating interest, indexed, and equity—carry very different levels of risk and of obligation. Secondly, many debtors have very large potential resources which foreign capital might be invited to participate. Thirdly, some of the initial adjustments to reality will almost certainly be borne by the borrower, or later, by creditors rather than debtors, in the form of moratoria or partial write-offs. As one critic has trenchantly pointed out, a debt problem can hardly be said to be near solution when the real burden and the real interest rate are higher after the solution than before it.

The tragedy is that no progress with these central issues—or even with the question of IMF access to market finance as a borrower rather than simply as orchestrator—can be hoped for in the present uncertainty of potential competitors.

But BT faces some big obstacles, which may take years to overcome. While it has taken some long overdue steps to install proper management and financial controls since Sir

A massive network burdened with obsolete equipment

a rival communications network, is still in its infancy. Though the Government has acted to curtail BT's former monopoly over subscriber equipment and services, the organisation's extensive distribution channels and marketing muscle give it a powerful advantage over potential competitors.

The Government will also be relying heavily on another, novel method of regulating BT by imposing price constraints during the first few years of private ownership. The method, originally proposed by Prof

in one go, to avoid an awkward period of transition to the private sector. But the UK market alone would almost certainly be unable to swallow the entire issue at a single sitting.

British institutions added only £2.5bn of equities to their portfolio last year.

As a result, the Government has already started to cast its net overseas. It has made overtures to Japan, which received a puzzled and negative response, and is currently making a major effort to woo Wall Street. The British merchant banks handling the issue have hinted that they hope to dispose of as much as half of it in the U.S.

However, American institutions are largely ignorant about BT and will probably need a good deal of convincing if they are to absorb more than a token amount of the issue. Their initial prejudice is to view it as a utility.

The Government could risk political embarrassment if a large chunk of BT were sold to overseas buyers. The inherent trickiness of valuing the shares means that there is

The sale of British Telecom

BT: the 51 per cent solution

Guy de Jonquieres and David Freud examine the issues raised by the £4bn privatisation package



a more than even chance of the price rising sharply on stock exchanges after trading begins. If that happened, the public outcry over Wall Street's profligate and expensive could make the future over last year's flotation of Amersham International look like a vicious tea-party.

An alternative is to sell BT in several tranches, possibly three over the same number of years. But this approach also has its problems. The institutions would be reluctant buyers of the early tranches because they would know that more of the same stock was to be unloaded on the market later. Some more exotic options have also been mooted, such as giving preference to BT subscribers or buyers of special gilts issues. But few of these seem practical or of much more than marginal value.

It is too soon to say how—if at all—privatisation will affect BT's business strategy. It has already responded to liberalisa-

The Government has set itself ambitious targets

tion by starting to re-align its tariffs more closely with costs so as to reduce the subsidy from profitable long-distance and international services to loss-making local calls, by dividing its major businesses into profit centres and by expanding its marketing effort.

BT seems certain to remain the dominant distribution channel for subscriber equipment and services for many years to come. Senior managers claim that its enormous buying power will enable it to foster the development by British companies of new products and services which can be sold internationally. They argue that it can play a similar role to Marks and Spencer, the British retailing chain which has established close links with a wide range of UK manufacturers.

It remains to be seen whether this patriotic vision can withstand the pressures which a privatised BT will face to maximise profits. So far, the Government has massaged the liberalisation rules to ensure that most of the telecommunications products approved for competitive supply are made in the UK.

Yet it may be difficult to maintain this favouritism for much longer, and both BT and its principal suppliers have a long way to go before they match Marks and Spencer's standards of quality and price. Only last spring, Sir George Jefferson publicly castigated the performance of UK telecommunications manufacturers and hinted that unless it improved dramatically, BT would buy more from overseas suppliers.

It seems unlikely that BT will start manufacturing itself. It is not keen to shoulder the extra costs and management responsibility, and its own studies have convinced it that there will be much less money to be made in the future from making electronic equipment than from designing software for it and marketing it.

The Government has clearly set itself extremely ambitious targets. It wants a world-class national telecommunications industry; a genuinely competitive home market; a more efficient and commercially aggressive BT; satisfied telephone subscribers; and the maximum price for its BT shares. Reconciling so many different objectives will be no easy task.

HOW BRITISH TELECOM COMPARES

British Telecom	American Telephone and Telegraph*	France	West Germany
Revenues 1982 In \$ at 31.12.82 rates	24.4bn \$35.1bn	Fr 53.7bn \$8.0bn	DM 27.9bn \$11.7bn
Cap. investment 1982 In \$ at 31.12.82 rates	£1.6bn \$2.6bn	Fr 27m \$4.6bn	DM 11.1bn \$4.7bn
Employees, end 1982	246,000	822,000	164,000
Subscriber lines, end 1982	19.4m	84.7m	19.5m
Employees per 10,000 subscriber lines	127	97	84
Revenues per employee (\$)	4,200	7,900	4,900
Cap. investment per subscriber line (\$)	133	198	205

*AT&T Long Lines and Local operating companies only.

†Telecommunications operations only.

FT estimates

Men & Matters

Eye眉 power

Sir Percy Cradock will provide an interesting contrast to Sir Anthony Parsons, the man he is to succeed as Mrs Thatcher's in-house foreign affairs guru at 10 Downing Street.

Where Sir Anthony tends to be forthright in his dealings with Sir Percy never uses two words where one will do; and, if he can help it, uses none at all.

Where Sir Anthony is an enthusiast with a strong sense of humour and a bon vivant, Sir Percy has an air of the democratic socialist.

Nevertheless, Kenya has just taken a significant step towards establishing a national telecommunications service, such as call boxes and 999 calls, and the conditions for interconnection between its network and those of its competitors.

The Government will also be relying heavily on another, novel method of regulating BT by imposing price constraints during the first few years of private ownership. The method, originally proposed by Prof

campaign is over.

Before becoming ambassador in Peking in 1978 Sir Percy, who will be 60 at the end of October, served as British envoy to East Germany. He was also leader of the UK team at the comprehensive test ban discussions at Geneva.

Sir Percy has reacted by instituting an austerity programme. It starts by cutting the six top executives with 50 per cent pay cut. The next step is to rank employees with a view to dismissing non-performers. "We aim to eliminate the bottom 10 per cent," says Michel.

No one can suggest, however, that Michel is not backing up his words with actions. He has promised to match the company's percentage savings in expenses with a similar percentage loss in his personal weight.

He argues that his own health and the health of his company will benefit in tandem.

For £7.50 customers are promised an up-to-date computer analysis of all results of the national elections which took place yesterday.

What will not be available, however, is the percentage swing for or against the government. Kenya is a one-party state and I confidently predict another five years for President Daniel Arap Moi and his Kenya African National Union Party.

In the past two years the regime of Deng Xiaoping, which Sir Percy has been watching from the walled compound of the British Embassy in Peking, has appeared to be in trouble from time to time. Sir Percy has bucked the trend, however, forecasting that all will be well. So far he has been proved right.

His experience is predominantly in China and in East-West relations, which suggests that Mrs Thatcher sees the talks over Hong Kong, and relations with the Soviet bloc, as the dominant foreign policy issues now that the Falklands

has been underlined once again during this year's proceedings.

Normally, it is attended by a varied crew of "observers," such as development banks and UN related institutions, and Switzerland.

This year all that has come to an end. Even the European Economic Community delegation, which has observer status at the policymaking Interim Committee of the Fund, was packing its bags last night for home ahead of the annual meeting proper which starts today.

Behind the decision to cut observers apart from Switzerland lies the unseemly wrangling which began around 1979 about Arab attempts to get the Palestine Liberation Organisation seat as an observer.

The issue has formally disappeared by last year's Interim meeting of the IMF. But just to be on the safe side it was felt that the best thing to do was to eliminate all but one (rich) observer for the future.

Kinnock ready

Some of the preliminaries to the famous victory at Brighton next Sunday when he will be appointed leader of the Labour Party are engaging the attention of Neil Kinnock.

He appeared in solitary splendour on the manicured lawn in New Palace Yard, Westminster, yesterday to be photographed in a variety of poses with Big Ben, Westminster Hall, and other well-known features of Parliament appearing prominently in the background.

Kinnock showed a clear preference for being photographed with his arms folded. The psychologists may read something into that—but now that he has a commanding lead in the leadership contest he need not worry about keeping his fingers crossed.

Unobserved

Switzerland's unique status as a privileged non-member of the International Monetary Fund

has been underlined once again during this year's proceedings.

Normally, it is attended by a varied crew of "observers," such as development banks and UN related institutions, and Switzerland.

This year all that has come to an end. Even the European Economic Community delegation, which has observer status at the policymaking Interim Committee of the Fund, was packing its bags last night for home ahead of the annual meeting proper.

Unfortunately for him the book is still being written, and all he gained was a leather-bound binding and a souvenirs case.

A team of eight international experts on 12 Metre racing is still completing the 300-page book.

Only 1,000 copies will be printed for the world market. Copy number one is to be auctioned in New York in aid of UNICEF.

Observer



Letters to the Editor

Unitary tax for multinationals

From Mr T. Tambeneck

Sir—Your editorials (September 18 and 26) on unitary tax rightly underscore its new importance but raise far more questions than they address or answer.

It's true that a few American states impose this extraterritorial income tax, and that its recent victory by the US Supreme Court suggests it may shortly be somewhat more widespread—although it has been common enough for decades, and can be dealt with if one takes care.

The time and space do not permit a full exposition of the issues, nor an analysis of the implications for company operations in the US, UK and/or fiscal policies of other countries toward multi-national companies.

Since it is to say that the editor's decision turned on a distinction in the question of US constitutional law, regarding our unique federal system, so there is very little Mr Regan can do about it unilaterally, regardless of protestations made by your own Government and Congress has been consistently unwilling to act because of pressure from the states.

Accordingly, the complex issues of national/state relations may not be resolved in a manner acceptable to foreign governments, which may then feel compelled to retaliate, for example by upsetting existing tax treaty relations to the detriment of all business. Your paper (September 22) mentioned "retaliation" in this context, and that could be most unfortunate.

As a former president of an international trading company and as an American tax lawyer I know that many of the problems created by "unitary tax" can be eliminated or minimised by careful tax planning. Hopefully such planning, plus moderation on the part of governments here and in the US, will minimise the disruption caused by conflicting governmental policies.

T. D. Tambeneck
Wald, Hardaker and Ross,
24, Upper Brook Street, WI.

From Mr J. Liddiard

Sir—It is somewhat ironic that I write to disagree with Francis Stewart (September 22) who urged the adoption of unitary tax. The company for which I work has actually had its Californian tax reduced under the unitary system.

The argument that unitary taxation produces a consistent system of taxation applies only in Utopia. Any system of taxation that allocates profits on a rational and uniform basis must be acceptable to any taxpayer. To believe, however, that the conflicting requirements of Governments to raise revenue would result in such a uniform application is, with respect, simplistic. The inconsistencies apparent in the present system would also be mirrored in any system of unitary tax.

It has taken over 40 years to establish the present limited system of double taxation treaties, all of which are based on the arms-length system of

allocating profit amongst nation states. In describing the superficially attractive merits of unitary tax, Francis Stewart ignores the practical problems inherent in its implementation.

The basis of calculating profits under any system of taxation is a series of compromises and this is especially so with unitary tax. California chooses to measure its unitary tax on three factors—labour costs, property values and sale prices. It is no mere coincidence that labour costs and property values in California are amongst the highest in the world. If a developing country were to adopt unitary tax it would be unable (and self-denying) to use these factors in the calculation for profit "allowable" in its territory. California's factors are designed to allocate profits to high wage, high cost economies. The adoption of different factors and the difference in weighting given to the factors would inevitably result in a world-wide system of tax that, manifestly, would not result in a "consistent basis for unitary taxation".

It is unrealistic to expect a Government to adopt a system of taxation which would reduce its revenue.

Even within a state itself, unitary taxation can cause a distorted burden of taxation. If a multinational were to start up a new business in a state, it could expect to incur losses in those early years in which it was developing the business. The existence of a similar, but profitable, business outside that state, however, would cause profits under the unitary system to be attributed to the state and taxed there. This would contrast with the position of another resident who also incurs start-up losses but who does not earn any profits outside the state and, consequently, would not pay any tax. It is difficult to ascertain what logical argument can be put forward to support such a capricious outcome.

Francis Stewart accuses multinationals of manipulating profits thus putting poor countries at a severe disadvantage. My experience is that the vast majority of multinationals do no such thing. For those that do, the solution is not to abandon the present system but to apply it more effectively. It is the application of the present system not its basis that Francis Stewart should attack. Countries with a "weak administration" (as Francis Stewart phrases it) might even fail to apply unitary tax properly.

It is interesting to note that when California realised that worldwide unitary taxation caused my company to reduce its taxation, it then claimed that our non-US businesses were not unitary with the Californian business and wished to go back to 1971 to recalculate our profits.

If the major proponent of unitary tax does not apply the system within its own borders in a uniform manner what hope is there that there can be any agreement between countries?

John Liddiard
45 St Andrews Road,
Croydon, Surrey.

Middle class machismo

From Mr R. Graftey-Smith

Sir—As the date of the annual conference approaches, certain factions in the Tory party as, as usual, seeking to induce the style of motions for debate, by regenerating argument in the Press "Law and order" and "the rating system" stand out. The former may be regarded as a useful pressure release valve for the pent-up frustrations of the choleretic Right. Debate on the latter, however, still tends to suffer from inadequate venting of the same pressure group. Tory councillors who venture into this maelstrom of middle-class machismo, inevitably return bruised and battered, wondering if they belong to the same party.

They should not be discouraged from taking a leaf from the Prime Minister's book and endorsing the findings that TINA applies as far as the party's economic policy. Much has been made of the White Paper claim that only 55 per cent of the voters actually pay full rates. The traditionally low turn out in local elections of around 40 per cent leaves

the democratic process fully at the disposal of a highly motivated 35 per cent whose condition has variously been described as "wretched" and "skinned alive."

Every country in the Western world has a property tax of some sort and it is inconceivable that government of whatever hue would forever abandon such a clear cut method of raising money. The right to control revenue, subject to the sanction of such electorate as turns out is the essence of local government accountability. The volunteers who make up the body of elected councillors should have little purpose in being merely distributors of government subsidies. Such quangos are drawn from a different cohort. Conservatives are better advised to pursue their philosophy of the property owning democracy through the sale of council houses than to set about destroying one of the few remaining bastions of defence against the creeping centralisation of the property of the state.

Roger Graftey-Smith
4 and 6, Copthall Avenue,
Moorgate, EC2.

Pensions and early leavers

From the Chairman,
Martin Paterson Associates

Sir—Mr Baker (September 22) can see no reason why an employer should be expected to "induce" the pension of an outgoing employee and makes the fair but curious claim that to do so could create "a considerable increase in cost, perhaps at the expense of the remaining members."

In fact, what has been proposed is not so much to induce these pensions as to provide some protection against their shrinking until they become only a miserable relic of their former size by the time the first payment is due. To do this cost would be minimal, and would cost if we had no inflation at all. And in these circumstances Mr Baker would surely not suggest that frozen pensions be trimmed back each year?

When looking at the matter, one important fact is often overlooked: namely, that inflation itself creates, at least in large degree, the means for

preserving the value of these pensions and in that sense, as I have already implied, it does cost more to stop frozen pensions melting away.

Martin Paterson
10 Buckingham Place, SW1.

The intrinsic value of gold

From Mr M. Coulson

Sir—in the gold survey (September 21) your Commodities Editor says that the metal "still has an intrinsic basic value, founded on the rising cost of extracting new supplies from deep below the earth's surface."

In the June quarter, the average cost of production of the South African mines varied from below US\$200 to almost US\$600 an oz. With valuations like this, how can mining costs alone determine the intrinsic

Splitting BL into tiny units

From Mr D. Dale

Sir—Mr Cecil Parkinson recently inspected one or two BL factories and met senior BL managers in connection with government plans for the privatisation of certain "product companies" established within BL for the purpose. I am wholly in favour of the introduction of private capital into BL, but to split it up into smaller units by motor manufacturing standards is foolish in the extreme.

The costs of design and development of a new model, and even of a new engine or gearbox are so enormous that these insignificant companies could not possibly bear them.

Jaguar, in spite of its recent very creditable performance, is still much too small to

survive and the thought of splitting off Land Rover and Freight Rover (the latter makes only Sherpa vans all of whose major mechanical components are car-sourced) is ludicrous. The base of the Vauxhall business is still the distribution of the "fed" parts for the product companies which might well decide to do this by other means. Leyland Vehicles now make exactly the trucks (there is now no need for a British user to buy foreign vehicles on account of quality) but its main trouble is a lack of volume. In the last "good" year of the British truck market, Leyland made 28,000 trucks while Mercedes made 128,000. There is indeed little mutual support between trucks and cars so far as sourcing of components and assembly are concerned, but the commercial vehicle distributors are often better at selling "panel" vans than can distributors and this is a valuable link.

Apart from shortcomings on the production side, a major omission of the BLMC era was

the Government, which offered to resign yesterday to aid the reconciliation process.

Few on either side of the battle line see the ceasefire as more than an armed truce, a recognition of a new balance of power which has emerged after almost a month of fighting. The national reconciliation dialogue now to take place between all the different Lebanese leaders is to be held in Saudi Arabia. That is a measure of the disarray.

At the same time the U.S. has shown that it would not allow President Amin Gemayel to be overthrown. A week ago when Syrian and Druze artillerymen poured fire into Souq al Gharb and a series of government ground attacks, General Fouad Tannous, the Lebanese army commander, told the Americans that he would have to evacuate the town unless their offshore fleet provided naval artillery support.

They did so and the Government has clung onto Souq al Gharb, which has achieved a symbolic importance out of proportion to its strategic significance. Since then there has been little ground fighting, though plenty of artillery battles, as Syria and its Druze allies massed to extract the best ceasefire deal possible. But they knew they could not overthrow.

If the naval bombardment had

integrated of Lebanon itself, and little is expected from the meeting.

The Government, on President Amin Gemayel's own admission, only holds 10-20 per cent of the national territory. Lebanon itself is little more than a geographical expression.

The Israelis hold the south of the country, the Syrians the north and east and their Druze allies those the central mountains overlooking the capital.

They did so and the Government has fought well better than many foreign observers had expected. But the critical new addition to all political equations in Lebanon is the support President Reagan is now giving to President Gemayel. A massive armada of naval vessels is cruising off the Lebanese coast, including two aircraft carriers and a battleship.

If the naval bombardment had

Ceasefire in Lebanon

'Enough, enough, enough'

By Patrick Cockburn in Beirut



Fighting in the Souq al Gharb, east of Beirut

difficulties in coping with the dangers of Lebanese politics and Israel has remained passive during the recent fighting.

This may not last. Already there are calls from General Amin Gemayel for the Israeli Defence Minister to act after the report on the Chatila massacre, for a more forward policy in Lebanon. It may not be long before Israel once again begins to intervene militarily north of its line along the Awali.

The threat of Israeli intervention is not the only factor which makes the present balance of power unstable. Lebanon is only half the size of Wales and within this small area 17 different sects vie for their own security if not predominance. The Muslim, Sunni and Shia sects, the Druze, Maronites, Greek Orthodox and Greek Catholics all try to support their interests by a web of domestic and foreign alliances—their own private armies are still intact.

For instance, the 1,200 marines in the multinational force stationed at the airport have recently been in their bunkers because of sniper and rocket fire from nearby Shia Moslem suburbs, not because of Syrian or Druze artillery shells. The Shia are fighting their own largely private war with the army and if the Government seeks to take control of their strongholds a new round of fighting could erupt.

In one way the U.S. military intervention in Lebanon does resemble Vietnam in more than a rhetorical sense. In both cases Washington sought to prop up a very fragile and not very popular government, one which in Lebanon is considered an instrument of Christian domination by many Moslems, who form the majority of the population.

President Gemayel, who faces so many enemies and has alienated so many potential friends, considers that his one strong card is his alliance with the U.S. He has little else going for him and over the last month he has sought desperately to internationalise the crisis. President Reagan cannot now back away from his commitment to give substance to the regime's somewhat shadowy authority, but in doing so he will find it next to impossible to keep his footing in Lebanon's political quicksand.

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SECTION II - INTERNATIONAL COMPANIES

FINANCIAL TIMES

Tuesday September 27 1983



SGB to tap markets in bid to raise BFr 8bn

BY PAUL CHEESERIGHT IN BRUSSELS

SOCIETE GENERALE (SGB), the major Belgian industrial and financial holding company with interests both internationally and throughout the Belgian economy, is going to the capital markets for the first time in eight years to raise BFr 8bn (\$148m).

The long-awaited fund raising is intended to stiffen the group's financial structure after heavy demands on it in recent years and to provide further investment cash.

Capital will be raised in three ways, SGB explained yesterday:

- A one-for-three rights issue of 3.82m shares, providing BFr 4.80bn-BFr 5.5bn;
- The sale of 50,000 shares to group personnel, providing BFr 67.5m-BFr 60m;
- The offer of 1.8m shares to holders of 1975-1987 8.25 per cent con-

vertible loan stock on the basis of two shares for each unit of loan stock to provide BFr 2.4bn-BFr 2.88bn.

The precise amounts raised will depend on the price of the new shares, which will be set later at between BFr 1,350 and BFr 1,900, according to the state of the market.

This price range compares with the BFr 1,065 at which SGB shares were trading yesterday on the Brussels bourse. This year the SGB price has fluctuated between BFr 1,186 and 2,025. It has strengthened over the past three trading days in line with the general market trend.

SGB thus joins a long line of Belgian companies which, in 1982 and 1983, have been taking advantage of tax concessions offered by the Belgian Government to encourage borrowing. SGB's indebtedness has risen to BFr 7.1bn, it said yesterday.

Moulinex doubles profits at midway

By David Housego in Paris

MOULINEX, the French manufacturer of electrical kitchen equipment, doubled its net profits in the first half but warns that the results are distorted by the restructuring costs last year of its American subsidiary.

Net profits rose from FF 23.6m (\$2.95m) in the first six months of 1982 to FF 58.1m. Sales increased by only 9 per cent.

These results compare with net profits of FF 35m in the first six months of 1981.

Moulinex's joint venture in the US with Regalware - the American kitchen equipment company and Moulinex established a new jointly held subsidiary Moulinex-Regal - incurred heavy restructuring costs last year.

This year Moulinex is undertaking a large investment programme in France to automate further its production. M Jean Manete, the 84-year-old chairman of the company, announced recently that investments in France would be 50 per cent up this year to FF 120m.

The company said yesterday that the profit outlook for the year depended heavily on whether there was a sharp downturn in the French market.

The problem of succession at the company remains unresolved with M Manete still seeking a partner. He has no heir.

Privatbanken injects capital into UK unit

By Hilary Barnes in Copenhagen

PRIVATBANKEN, Denmark's third largest commercial bank, is subscribing Dkr 150m (\$15.7m) in subordinated loan capital through its wholly owned subsidiary in London, Privatbanken Ltd.

The Copenhagen bank said that the capital injection is to enable the London bank to continue the rapid expansion it has shown since its formation five years ago. The London bank's balance sheet total is about £220m (\$160m) and its capital and reserves about £20m.

The bank made taxable profits of £1.25m last year and expects to double earnings in 1983, according to Mr Peter Tann, managing director.

FIRST EXPULSIONS IN STOCKHOLM BOURSE'S HISTORY

Exchange freezes out Stenbeck

BY DAVID BROWN IN STOCKHOLM

IT WAS a very difficult decision to take, the most difficult in my time on the stock exchange board," said Mr John Edward Johnson, referring to the decision last Friday to expel the Fagersta steel company and the Kinnevik Investment Group from the Stockholm bourse for alleged improprieties.

Mr Johnson is chairman of the Swedish Shareholders' Association, whose members are expected to be hardest hit by the action - the first expulsions in the exchange's 119 year history.

The decision marks another setback to the bid by Fagersta to take over Kinnevik, its parent company, which was initiated last August. It was also a jolt to Mr Jan Stenbeck, the controversial businessman and financier, who is leading the takeover consortium.

Both companies are bound in an interlocking web of family interests. The consortium, which includes most of the major stockholders in Kinnevik, had agreed to exchange its shares for a controlling interest in Fagersta. It then invited remaining shareholders to ex-

change their own Kinnevik shares for various convertible and subordinated loans in Fagersta.

The plan ran into trouble at the start of this month, when a Kinnevik auditor, Mr Knut Ranby, denied he had ever signed the prospectus which was sent out over his name. He asked the Swedish police to investigate the possibility of criminal wrongdoing.

The deal was also criticised by the Shareholders' Association and others for favouring the large stockholders who made up the consortium and who also sit on the almost identical boards of both companies.

On September 2, the stock exchange decided to ban trading in the companies' shares amid calls that the deal should be stopped. It later extended the ban, saying that information contained in the now-controversial prospectus had been misleading, and asked the Fagersta management for clarification. It later termed the response insufficient.

In taking the decision to oust the two companies, the bourse pointed out that Kinnevik had failed in its obligation to inform the exchange immediately upon agreeing to give Fagersta an option to buy the company's assets.

It now appears likely that a market for Fagersta and Kinnevik shares will open within existing bank and broker networks.

Mr Stenbeck's bid has been explained in part as a fierce family power struggle, revealing yet another aspect of the story. The scandal comes at an embarrassing time for Swedish industry, which is trying to present an acceptable face to the public in its bid to stop the Social Democrats from going through with their planned introduction of wage earner funds. These are the controversial shareholdings which would be financed by a government tax on profits and controlled by the unions, in a significant extension of their influence over corporate decision-making.

Both companies are bound in an interlocking web of family interests. The consortium, which includes most of the major stockholders in Kinnevik, had agreed to exchange its shares for a controlling interest in Fagersta. It then invited remaining shareholders to ex-

change their own Kinnevik shares for various convertible and subordinated loans in Fagersta.

Two weeks ago, however, Skanska Cementgjuteriet, one of the Nordic region's biggest construction and investment groups, announced that it had acquired a substantial interest in Sandvik and would seek to replace the entire board at an extraordinary shareholders' meeting on October 24.

The membership of the Fagersta and Sandvik boards is virtually identical, and this was seen as yet another move by the Swedish business establishment to curb Mr Stenbeck's influence.

Fagersta now controls over 52 per cent of Kinnevik shares. Companies in the so-called "Stenbeck sphere" announced yesterday their intention to sell all their Sandvik shares at the market rate. The 2.2m stocks are expected to yield about SKr 800m (\$102m), to free the group from its unprofitable ties with the steel industry, and give it a new freedom of action.

It is not yet clear if and when two companies might be let back on the stock exchange.

Du Pont Canada drops plan for Alberta plant

BY OUR MONTREAL CORRESPONDENT

ALBERTA, its economy depressed by the troubles of the energy industries, has lost a third major petrochemical project.

Du Pont Canada has scrapped plans for a C\$300m (US\$243m) polyethylene plant near Edmonton because demand has not lived up to estimates made several years ago.

Du Pont's partner would have been Alberta Energy, but it now says it can meet all domestic and export demand from its Ontario plant.

Last year Esso Chemical dropped

plans for a C\$650m ethylene plant, and Shell Canada halted planning on a series of petrochemical ventures. The West German Bawies group's plans for a C\$800m methanol plant have also been delayed.

• Canterra Energy, the main oil and gas exploration arm of the Federal Government-controlled Canada Development Corporation, has pulled out of a joint venture led by Gulf Canada to drill the Pitsilak offshore well in the Beaufort Sea, 2,500 miles north of Calgary.

The Royal Bank was a principal

Cast recovery 'may take more than two years'

BY ROBERT GIBBENS IN MONTREAL

THE ROYAL Bank of Canada believes it may take more than two years to bring the restructured Cast North Atlantic container business to the point where it can be sold to a "long-term holder", Mr Robert Utting, the bank's vice-chairman, said.

The business was restructured under the umbrellas of an offshore, indirectly owned bank subsidiary, Cast (1983), last summer after negotiations to sell the former Cast North America to Canadian National Railways founders.

The Royal Bank was a principal creditor of Eurocanadian Shipholders of Bermuda, now in liquidation, and had already repossessed three large Cast bulkers worth more than \$100m. The old Cast North America is bankrupt, but because of the bank-organised group restructuring, creditors will receive about 40 cents to the dollar.

Mr Utting said the Bank Act contains provisions under which the bank could continue to own the continuing Cast container business for more than two years if sound reasons exist.

Swiss banks have record year

BY JOHN WICKS IN ZURICH

AN INCREASE in foreign business was the main reason for the growth in Swiss banks' balance-sheets last year, according to a report published by the Swiss National Bank.

The report shows that the country's 572 banks and finance companies booked a 0.2 per cent increase in their combined balance sheet total in 1982 to a record figure of Swiss Fr 611.5bn (\$285.3bn). In the previous year, balance sheets had grown by 14.4 per cent but this was partly the result of the inclusion for the first time of precious metal accounts.

These figures exclude fiduciary accounts, which last year rose by only 5.1 per cent to Swiss Fr 166.4bn, compared with a jump of 31.2 per cent in 1981 per

cent. The National Bank study points to an acceleration of foreign business on the part of the Swiss banking system in 1982, with foreign assets up by 12.5 per cent and foreign liabilities by 13.1 per cent. In comparison, domestic assets and liabilities rose by only 7.3 per cent and 7.5 per cent, respectively.

As a result of the recession, the volume of domestic loans and advances was little more than half that booked for 1981, while - due largely to the strengthening of the dollar - the value of foreign credits nearly doubled. However, foreign loan business was still well below the levels booked in 1980 and 1981, the result of international economic conditions and banks' caution in entering new sovereign risks.

General Mills expects strong results for year

BY OUR FINANCIAL STAFF

GENERAL MILLS, the major U.S. food group, expects a record year following a 19.8 per cent advance in net profits in the first quarter, Mr H. B. Atwater Jr., the chairman, told the annual meeting yesterday.

Reported sales for the first quarter to August 26 were unchanged at \$1.38bn, but a \$21.3m gain from asset disposals helped lift net earnings from \$60.5m to \$72.5m, or \$1.20 a share to \$1.52, with profit on disposals accounting for 45 cents.

Sales, however, increased by \$55m over the quarter taking the nine month figure to \$1.68bn, against \$271bn.

For the whole of last year the company reported earnings down from a record \$46.6m to \$30.3m.

General Mills had relatively flat

first-quarter earnings primarily because of the absence of sales of businesses already sold and substantially lower sales in the company's toy business.

Sales were down because of a deliberate policy to delay shipments to Mexico to minimise financial exposure in that inflationary market and to a weak video game market which remains uncertain.

Consumer foods, General Mills' largest business, had a 10 per cent increase in sales in the first quarter, earnings up 10 per cent, but the second quarter earnings may not exceed the previous year's level but the third quarter would be "particularly strong".

The fashion group's three-month results were down and are likely to remain so for the full year.

Liquidation for Canal Randolph

By Our Financial Staff

CANAL RANDOLPH, the U.S. property company, is to pursue a proposal to sell all its income-producing real estate properties. This would involve liquidation of the whole company, followed by the sale or distribution of all assets.

Mr Raymond French, chairman and chief executive, said any other proposals would have to be in hand within the next four weeks.

Canal Randolph was at the centre of a bitter proxy fight between U.S. and UK investors earlier this year.

Results were down and are likely to remain so for the full year.

Continental's novel cost-cutting move

BY TERRY DODSWORTH IN NEW YORK

CONTINENTAL AIRLINES' decision to take the big stick to its workforce through the unusual step of filing for the protection of the bankruptcy courts is a dramatic illustration of the competitiveness in the domestic U.S. air transport business.

The recession is only half of the story. True, volume demand fell off in 1982 and, despite signs of a slight strengthening, is still exceptionally low. But what is hurting even more is the structural change ushered in as the government's deregulation measures began to bite during the past eighteen months. These policies have destroyed the industry's comfortable price structure and thrown the routing system open to much more intense competition.

A similar process has been at work in the trucking industry, where the same combination of deregulation and deregulation has ripped apart the industry's traditional organisation. About one third of its total uncollected workforce of 300,000 is now officially jobless, and the industry was able to force through a

zero wage agreement earlier this year. Competition has become cut throat, partly because, in the new deregulated trucking world, out-of-work truckers have bought their own vehicles and gone into business for themselves.

Airlines, such as American and United, have emerged relatively unscathed by swiftly setting their targets on routes where they believe they could earn higher profits and by rationalising elsewhere.

This policy has reduced services to some remote airports and left many dissatisfied customers in the lurch; and it has intensified the competitive pressures on the high density routes.

The price pressures that have resulted from this additional competition have produced some spectacular results. Over the past two years, discounts of up to 75 per cent have

been on offer on some long distant flights to high density markets.

The attack on costs, while coming from route rationalisation, has also embraced vigorous attempts to trim wages and benefits. Apart from redundancies, several

per cent of the company and a share in 25 per cent of its profits to employees if the unions would agree to cuts worth up to \$150m a year across the 14,000 workforce.

Al-Mal Group	American Express Bank International Group	Amro International	Bankers Hanley Stoeck Shidell	Banca Commerciale Italiana
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Investigation at South Korean bank

BY ANN CHARTERS IN SEOUL

SOUTH KOREA's banks have been hit by yet another scandal involving more than \$200m in promissory notes said to have been illegally issued by employees of the Cho-Heung Bank, the country's fifth largest commercial bank

The Office of the Superintendent of Banks said yesterday that initial investigations of one branch of Cho-Heung had revealed that improperly authorised commercial bills and paper had been issued by some of the bank's employees to two companies. Youngdong Development Promotion and Shinhan Cas. Inc.

Mr Lee Hun-Heung, president of Cho-Heung Bank, said that the bank's own auditors had

Restructuring
 for Kirsh
 Industries

By Our Johannesburg
 Correspondent

THE troubled South African retailing, wholesaling, and insurance group, Kirsh Industries, is to re-organise its corporate structure. The group, which manages the country's largest supermarket chain, Checkers, has asked its bankers to place values on the various operating companies within the group preparatory to the restructuring. The intention is to combine all the trading interests into a single company.

Kirsh is not itself quoted on the Johannesburg Stock Exchange. However it exercises control of Checkers, the furniture retail chain, Russell; the wine retailer and wholesaler, Union Wine; and the wholesaler, Metro Cash and Carry (Metcash), through a series of quoted holding companies.

The major problem area is Checkers. In the year to July 2 the supermarket chain incurred a pre-tax loss of R12.3m against a pre-tax loss of R16.5m in the preceding year. Apart from Checkers, all of the group's trading interests have suffered profit reductions as South Africa's recession has deepened. This has resulted in reduced dividends and lower cash flows for the quoted holding companies—Kinet, Metro Corporation, and Coké.

No reason has been given for the restructuring but stockbrokers believe it is being done to strengthen the group's financial base as a prelude to raising additional equity capital. Details of the restructuring are due to be announced within the next few days.

Trading in the shares of Coké, Kinet, Metcash, Metro Corporation, Checkers, and Russell was suspended on the Johannesburg Stock Exchange yesterday at the group's request.

found that 167bn won (\$214m) in illegal promissory notes had been issued between February 1980 and September 13 this year. Of this total some 47.1bn won had been cashed and the bank was committed to honouring the rest; the rest, he said,

ties, although at least one of them has left the country, with a former executive of Cho-Heung Bank and the chairwoman and president of Youngdong.

The size of the apparent fraud is such that the Bank of Korea has had to underwrite Cho-Heung's guarantee that it will honour the issued bills. The reported total exceeds the 110bn won total capital of the bank.

This is the third major scandal to hit the country's financial community in the past 18 months. During the summer the Myungsung Leisure group was involved in \$135m of undocumented loans from a manager of the commercial

branch of the Bank of Korea—representing loans made but never entered into the ledger.

In May 1982 the multi-million dollar kerb market scandal broke when \$350m in promissory notes were unexpectedly presented for payment causing the resignation of bank presidents and almost forcing some banks into liquidation.

This new incident raises once again serious questions as to the effectiveness of the regulatory authorities and the internal control mechanisms within the country's banks. Earlier this year the government sold its controlling interest in the Cho-Heung Bank as part of its policy of returning commercial banks to the private sector.

Nissan Motor reduces forecast

By Charles Smith in Tokyo

NISSAN MOTOR COMPANY expects pre-tax profits for the six months ending September 30, in fall by 35 per cent. in around Y60bn compared with the same period of 1982.

Profits for all the current year are now expected to reach Y120bn, some 22 per cent. less than for 1981-82. Nissan's earlier forecast profits for 1983-84 of Y150bn.

Nissan's downwards revision of its profits forecast reflects higher than expected depreciation charges and some deterioration in expected foreign exchange earnings. Nissan uses an exchange rate of 2225 in the dollar for the first half of the current year but expects a ratio of Y230 in the second half and thus lower profits on dollar-denominated overseas sales.

The increase in depreciation charges results from the heavy investments made by Nissan in 1982 in expanding its overseas manufacturing and in improving its design and engineering capabilities inside Japan. The company invested Y200bn in new plant and equipment in 1980 and Y210bn in 1982. Investment this year is expected to fall to Y180bn.

The reduced profits forecast is made despite a slight brightening in the outlook for sales. First half sales are estimated at Y1.67bn, up 2 per cent. from last year but sales for the full year are forecast to rise by 7 per cent. to Y3.400bn.

The company expects domestic sales to start picking up briskly from the autumn onwards. In the first half domestic sales were roughly equal to year ago levels while exports rose marginally.

Nissan's share of the Japanese car market fell slightly in 1982 under the impact of a determined sales drive by Toyota.

Earnings fall at Dunlop Olympic

By LACHLAN DRUMMOND IN SYDNEY

DUNLOP OLYMPIC, the Australian tyres, cables, clothing, and rubber group, saw net earnings drop by 16 per cent. from A\$53.34m to A\$45.1m (\$US840.3m) in the year to June 30 as sales advanced by 3 per cent.

The net result benefited from a lower tax rate with the pre-tax decline at 20 per cent. to A\$77.4m after little changed interest charges of A\$25.2m and depreciation of A\$17.9m against A\$15.9m.

There were also minority charges of A\$2.6m against A\$1.7m before net profit, which was struck ahead of further heavy rationalisation costs, which saw extraordinary debits of A\$12.4m compared with A\$37.5m in the previous year.

The company, in which Dunlop of the UK has only a residual interest, said economic activity was down in almost all areas, with tyre manufacturing and retailing in loss for much of the year.

Elsewhere, cable operations did well, footwear was stronger, and the clothing and textiles divisions performed well.

The steady interest charges in a year of generally higher rates reflected an A\$28.8m cut in debt as the company bore down on working capital levels.

An unchanged final dividend of 50 cents makes a total of 9 cents absorbing A\$21.9m of attributable profits of A\$32.8m.

• COAL AND ALLIED Industries, the leading New South Wales coal exporter, has reported a jump in net earnings from A\$1.95m to A\$6.7m for the year to June but has reduced its dividend payments because of an underlying loss from its coal operations.

The company said coal operations returned a A\$603,000 loss for the year and it is only the application of A\$4.1m of divi-

idend income and tax credits which allowed it to achieve its net profit.

The result reflects an improvement on the previous year, however, when there was a pre-tax loss of A\$904,000 compared with the latest A\$3.85m profit.

There were tax credits this year of A\$3.2m against A\$2.8m from investment allowances and rebates on dividends received.

Sales for the year were 7.7m tonnes of coal, up from 6.46m, and in cash terms A\$3.6m against A\$2.74m but the full effects of price and tonnage cuts for exports of steaming and coking coal are expected to fall in the current year.

The dividend total is down from 20 cents to 14 cents with a final payment of 8 cents against 12 cents. Of the total payout of A\$4.42m against A\$5.61m, half will go to Howard Smith Industries, the controlling shareholder.

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THE MANAGEMENT PAGE: Small Business

EDITED BY CHRISTOPHER LORENZ

OSBORNE
COMPUTER CORPORATION

Hands on or arm's length?

Louise Kehoe examines the implications for venture capitalists of the once fast-growing U.S. company's sudden demise

THE spectacular collapse of the U.S. company Osborne Computer this month has left some of the best known U.S. venture capitalists with burnt fingers and tarnished reputations. Admittedly the loss of some \$27m or more will hardly dent the financial resources of Osborne's backers, but the after-effects will ripple through the venture capital community for months to come.

In particular, the Osborne story raises question marks over the widely publicised claims of venture capitalists that they are closely involved with the management of the companies they support. The evidence so far suggests a surprising lack of inside knowledge on the part of Osborne's venture capital backers.

These investors have now filed a suit for fraud against Osborne, once the leading manufacturer of "portable" personal computers but which has filed for protection from creditors under U.S. bankruptcy laws (the UK company is unaffected and is still trading). The suit alleges misrepresentation of Osborne's financial position and negligence on the part of the company's directors, auditors and banks.

In preliminary hearings last week, the investors failed to block the banks from cashing \$7m in letters of credit issued to Osborne. The case is due to be heard on Friday. Osborne is reported to have denied all charges made against the company, although no response has yet been filed with the court.

Will Osborne's disastrous fall from fame make venture capitalists more cautious? "I hope so, but I'm afraid not," responds Michael Murphy of Venture Capital Management in San Francisco. "There is so much venture capital money — so many new funds — so many new people. Venture capital is a very competitive business now."

Competition — the race to make a deal before someone else — forces venture capitalists to make quick decisions on whether to invest in companies of which they have little knowledge, and sometimes to agree, is pending.



Melchor: burnt fingers

to overpriced shareholdings. "Some venture capitalists are cutting corners," says Craig Taylor of Asset Management Company in Palo Alto, California, "and it is not just the newer funds" he adds, speaking as an established venture capitalist himself. Short cuts increase the risks, however, as the Osborne case clearly illustrates.

As in many venture capital deals, most of Osborne's investors followed the lead of investor Melchor, in this case, was Jack Melchor, and relied on his judgment and involvement with the company as a guide to its likely success; he controls a number of substantial venture funds and at one time managed the £2m Anglo-American Venture Capital Fund owned by the British Technology Group. (He now acts as a consultant to Anglo-American.)

Though other early investors in Osborne, such as the Sevin Rosen group, held back from providing further funding, Melchor continued ploughing money into Osborne as late as June — just three months before the company collapsed.

The venture funds that Melchor controls are among the plaintiffs in the fraud suit, while Melchor himself, who sat on Osborne's board, is named individually as a defendant in the case and declines to make any comment as the litigation plan to invest in any of them.

It is typical for the lead venture capital investor to adopt a "hands-on" relationship with the company and to join the board. Explains Murphy of Venture Capital Management: "If the lead (investor) doesn't know what is going on at the company then no one else will." The system usually works well, according to Craig Taylor, but it takes some time for the venture capital director really to get to know the people and the business.

Osborne Computer Corporation only lasted for two years, which gave no one time to know it well. What is now clear, even on the admission of one of the defendants in the fraud suit, is that until very recently there were no proper financial controls at the company. Perhaps this is not surprising in a company that had sales of over \$70m in its first year of operation. But many would argue that venture capital investors should have been on the lookout for these problems.

It is easy to say that in retrospect, respond the venture capitalists. Philips Business Systems has joined forces with Options Magazine for the 1983 "Women Mean Business" award to find women "who are successfully running their own business enterprise, large or small, as well as a home." The closing date is November 30.

The British Association of Women Executives, in association with the European Year of Small and Medium Sized Enterprises, is sponsoring the new Businesswoman's Enterprise Award. The judging panel, headed by Lord Lever, will be looking for "a candidate who displays entrepreneurial flair and business acumen, together with initiative with regard to new opportunities and exploitation of them." Entry is open to any full-time female employee or company director who has a minimum of two years' employment in her organisation, or a minimum of three employees or a financial stake in the company.

They were seduced by the idea of a quick hit," suggests Murphy, referring to venture investors who bought warrants from Osborne in April, expecting the company to make an initial public offering a few weeks later. "It is particularly embarrassing that the company went down so fast," he adds.

Certainly this will have a dampening influence on an entrepreneur's ability to get venture capital money," says David Gold, a San Jose venture capital consultant.

But those who will suffer most from Osborne's demise will be the dozens of companies expected to enter the personal computer market this year. "There will be 30 new portable computers introduced at Comdex (a trade show to be held in Las Vegas in November)," says Taylor. He does not plan to invest in any of them.

In brief...

THE next national conference for the 1983 European Year of Small and Medium Sized Enterprises will be held in Ireland on Thursday and Friday. Marketing in the EEC problems and solutions" will take place at University College, Galway, and will include contributions from a number of Irish and Continental businesses. Details from Small Firms Association, Confederation House, Kildare Street, Dublin. Tel: 77881.

The UK conference, meanwhile, has been scheduled for November 17 to 18 in Edinburgh and will be specifically concerned with the relationship between large and small firms and the practicality of introducing discriminatory legislation benefiting SMEs in the U.S. and Japan. Officials from the U.S. Small Business Administration will be among the speakers. Details from 21 South Terrace, London, SW1. Tel: 01-589 1945.

TWO competitions have just been announced aimed at encouraging female entrepreneurs.

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Why companies are not automatically attracted to free handouts of £100m

Tim Dickson continues a series on major Government initiatives

"AUTOMATE or liquidate" That is the challenge facing a host of British small engineering firms. But with time running out for companies to apply for help under a major Government incentive scheme, obeying even that maxim appears to be no guarantee of survival.

For according to Colonel Bill Williams, Director of General of the Engineering Industries Association, "Automate or Liquidate" is frequently now quoted as "Automate and Liquidate."

His words are particularly apt as the deadline approaches for last applications under the Government's second Small Engineering Firms Investment Scheme. The scheme provides a one-third grant to companies investing in certain types of advanced capital equipment.

But without the shutters down until this Friday, it is clear to even the most optimistic officials in the Department of Trade and Industry that a significant chunk of the £100m made available under the Scheme will not be taken up.

The most widely quoted explanation is a straightforward one — many businesses simply do not see sufficient returns on the corner to justify taking on the extra financial commitment.

Even some of those that are taking advantage of the scheme admit that there is a gamble involved. Take Eric Judd, managing director of Penshaw Engineering, based at Washington, County Durham, which was featured on this page last year (see FT November 23 1982).

Judd's experience illustrates vividly the rapid speed at which technology can move. For, although he is "busier than ever" as present providing subcontract engineering services on traditional electro-mechanical machines, he is highly conscious that numerically controlled machines are increasingly capable of carrying out the sort of "smell bench" orders with which Penshaw has made its mark.

"I have applied for grants for two machines," he reports, "but there is a lot of spare CNC capacity in this area at the moment. We haven't got the orders to justify the expense. But the way things are changing

you've just got to take this sort of risk. Mind you, I wouldn't be able to if I had to finance my share of the costs with new borrowing rather than retained profits."

A company hoping to reap more immediate benefits from CNC machines is a medium-sized West Midlands manufacturer of metal working machinery (turnover last year £15m) which does not wish to be identified. "We had been talking about the need to purchase new equipment for some time," explains its finance director. "With Sefis 2 the proposition suddenly became viable."

Orders totalling £130,000 for two machines, both made in Britain, have now been placed and will, the company's spokesman points out, "significantly increase our turnaround time and efficiency, given that we work to very close tolerances."

"Fortunately our order book is healthy at the moment but it's a hell of a rat race, especially as 70 per cent of our sales go overseas. I can quite understand why people do not want to invest when their business is flat."

Frank Roberts, managing director of Ashton-under-Lyne-based sub-contract engineers, Millwood Engineering, is another who just this year, three years ago, annual sales were running at £100,000 and the company provided work for 12 men. Now there are only three employees and turnover has

dropped to £40,000.

"Money will be left over from Sefis 2," says Roberts, "because everyone is already in hock to the bank. Although the scheme extends over three years, it is heavily in favour of companies which have already installed machines with the help of Sefis 1, offering evidence on these points."

Some companies, meanwhile, complain that the Sefis 2 conditions have been drawn too tight and that, as a result, worthy applicants have been turned away. Victor Elliott, for example, finance director of Linark-based Bardroc, found his company was excluded because it bought two small machines at a total cost of £70,000 under Sefis 1. "We would only have qualified for Sefis 2 if we had bought one machine under the earlier scheme, though the aggregate costs of both projects can be as much as £200,000. It seems anomalous."

Bardroc, which makes precision parts, is keen to buy another high quality CNC machine since the help received under Sefis 1 has given the company's competitive edge and boosted orders. "Because we can't extend our range of services without the machine, we have just had to lay off nine employees."

Richard Howling, chairman of Dorset-based Lingerd Industrial Holdings, is one of many capital equipment manufacturers (as opposed to purchasers) frustrated by the fact that the rules of Sefis 2 have excluded certain machines. Lingard's Polyurethane Mixing and Dispensing machines are used by the National Coal Board to make containers and, according to Howling, the market is expanding. "Although it has some fairly sophisticated bits of electronics, it is not microprocessor based and thus does not qualify. As a result we have lost a couple of orders this year."

"I think it is a pity that Sefis 2 has encouraged people to buy machines for areas of the market which are suffering from overcapacity."

Outside observers, meanwhile, are left wondering whether the Sefis "under-spend" will be allocated for a similar purpose or whether the Treasury will gratefully sweep it up with other departmental savings."

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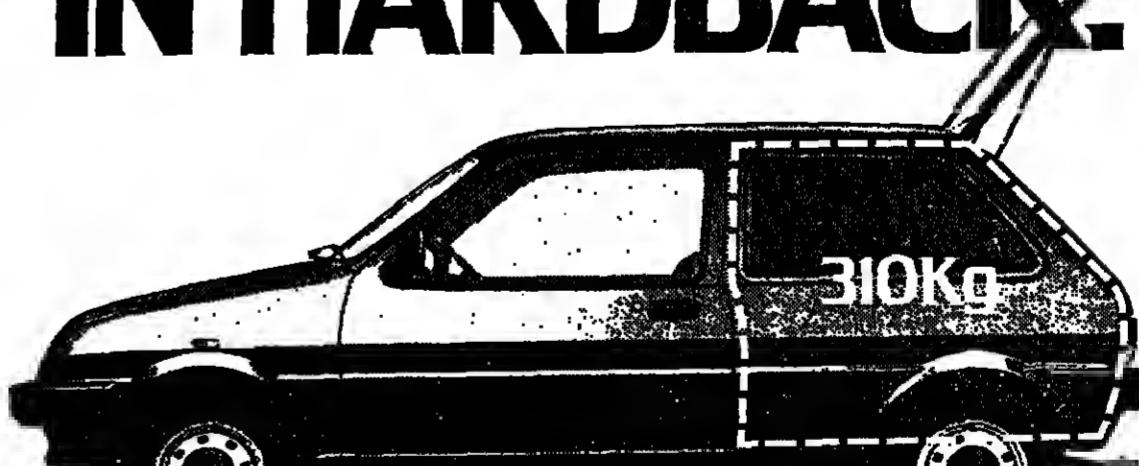
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UK COMPANY NEWS

Travis & Arnold up by 59% midway

A STEADY increase in demand for timber and building materials from the construction industry caused taxable profits of Travis and Arnold to surge by 59 per cent from £2.55m to £4.06m in the first half of 1983.

However, Mr E. R. A. Travis, chairman, points out that part of the increase was due to the poor start made in 1982 caused by severe weather conditions.

With earnings per 25m share of this builders and plumbers merchant and timber importer given ahead at 13.2p, against 8.8p, the interim dividend is being raised from 1.4p to 1.85p net. For 1983 a total of 5.46p was paid, from taxable profits of £54.93m, and stated earnings per share of 28.5p.

The recovery in demand—which was particularly from the private housing sector—continued in July and August, Mr Travis states, and the directors look forward to a satisfactory outcome for the year.

Sales advanced from £45.8m to

HIGHLIGHTS

Lex looks at the financial markets where the Bank of England resisted any move towards lower base rates but pitched a new short tap into a buoyant gilt-edged market. In Hong Kong, the monetary authorities continue to face the serious problems of a collapsing dollar. Near home the column comments on the BP tender which was completed with a striking price of 43p. Finally Lex looks at the latest move by Saatchi and Saatchi. The company has filed a preliminary registration document with the SEC in New York taking the opportunity to raise over £25m with an issue of 4.83m shares.

moved ahead by 82 per cent to £3.61m. Interim pre-tax profit from £20.000 to £38.000 mostly because of lower interest rates.

Tax took 1.8m (£1.04m) and after preference dividends of £14,000 (same) the attributable profits emerged at £2.25m (£1.89m).

The figures have been adjusted to take account of the 5p in September of the distributor coal and heating oil business. However, the 5p per cent increase in pre-tax profits is of just under 11%, assuming a 40 per cent tax charge.

than 2.5 per cent of annual sales and profits.

comment

Having striven to reduce overheads and maintain margins when demand for timber and building materials was firmly in reverse, Travis and Arnold found themselves well placed to profit from the recent increase in demand for the year. That leaves the ADR at yesterday's price of 327p up 7p on a prospective basis of just under 11%, assuming a 40 per cent tax charge.

comparable period has been flattened by the dampening effect poor weather had on sales in early 1982. That was followed by a seasonal winter advance in sales of rental heating and plumbing products, which account for 35 per cent of turnover. Add in property gains since the results end and slightly down on the previous six months' profits. Nevertheless, volumes continue to advance and trading margins have widened a couple of points to nearly 7 per cent—not far short of T and A's performance during the 1979 surge in house prices. The cash pile has grown to £1m-£1.5m and should remain that level in the current half, since no major growth in working capital requirements is expected.

All the same, the present improvement in volumes should be enough to push T and A up to around 28.5p pre-tax for the year. That leaves the ADR at yesterday's price of 327p up 7p on a prospective basis of just under 11%, assuming a 40 per cent tax charge.

Stone Intl. turns in £3m net

—pays 27p

Stone International—which was formed when management bought out the electrical division of Stone-Plate Industries from its joint receivers in May 1982—is reported net profits after tax of £3m for the year to May 31, 1983.

With earnings per share given as 25p a year's dividend is set at 15p.

Mr M. H. T. Jourdan, chairman, expresses some optimism for the future, but points out that as far as foreign markets are concerned there are few indications that there will be any more buoyant in the coming year than they have been in the past.

The net final dividend had been lifted 1p to 16p, which raises the total from 7.5p to 8.5p. Earnings per 25p share are shown as moving up from 17.7p to 27.4p.

Commenting on the period under review, Mr Jourdan says that a strategic objective of the company is to put a full listing on the London Stock Exchange at some appropriate time in the future—possibly during 1984—as an aid to its long-term business development.

Stone is reviewing areas of product and market interest for licensing, joint venture or acquisition.

At the beginning of the year under review, Mr Jenkins says the order book stood at £45.7m. Further orders taken during the period amounted to £31m, resulting in an increase in the order book to a record level of May 31, 1983 of £62.4m.

Problems expected to be encountered following the difficult period prior to and during receivership have largely been overcome and the financial effort fully provided for, Mr Jenkins reports.

"The company's financial position is sound, your directors are alert to opportunities, and have confidence in the future," he adds.

A. C. Cars improves

A decrease in pre-tax losses from £163,000 to £89,000 has been shown by A. C. Cars for the six months to the end of March 1983. Turnover of this major British car parts manufacturer amounted to £31m, resulting in an increase of 12.7 per cent to 25p; the Kvaerner acquisition was equity-funded.

In its preliminary statement the Raglan board says that it has a projected development programme currently in excess of £25m. Current developments are all progressing well and the outlook is good, says Mr Anderson, "brighter for many years."

Mr Anderson added yesterday that Raglan was concentrating on

the sort of projects which were currently fashionable—small office, retailing and a "high tech" industrial park on the outskirts of Oxford. The company's in-house team was also limiting its geographic exposure to the South of England, he said. This approach, he was said, was necessary to vindicate the last autumn's £1.19m acquisition of Kvaerner Diesel in the Netherlands.

Net assets per share rose up 12.7 per cent to 25p; the Kvaerner acquisition was equity-funded.

The acquisitions have brought a degree of stability to the company's financial income rising from £85,000 in 1981-82 to £145,000 last year, or £225,000 on an annualised basis.

Mr Anderson said that he would be looking for further deals: development in partnership might be one way, and the acquisition of companies with underutilised property assets would be another.

There was again no charge for tax. Minorities took £2,000 (credit £4,000) and there were extraordinary debts last time of £15,000.

At the end of the last full year losses climbed from £191,000 to £166,669, mainly arising from engineering and industrial building activities. The directors had little confidence in the future until such time as there was a real upturn in the economy.

Thomson T-Line

Lower first half losses and expectations of a return to profits have been announced by

Thomson T-Line, timber merchant.

Interim trading losses, for the six months to June 30 1983, were reduced from £140,000 to £66,000, and the pre-tax deficit to £67,599 against £141,629 after a lower interest charge of £51,256 compared with £101,366.

Turnover came to £86,863 (11.19m).

During the opening period the company continued to realise surplus assets. With further sales of fixed assets expected, the directors say that indebted to the bank should continue to be reduced.

Once all the sales have been completed the group should return to profitability, they add.

There is again no ordinary dividend distribution, the last being a 1.75p final paid in respect of the 1979 year.

With the absence of a tax charge (credit £11,000) coupled with an extraordinary credit of £38,000 (nil), being over-provision in the previous period for tax on extraordinary gain, attributable losses fell from £200,629 to £29,599. The loss per 25p share was 0.04p against 1.24p.

For 1982 losses totalled £299,869 (£13.613) with turnover at £1.92m (£2.51m).

Stocktons

Joint receivers have been appointed at Stocktons, a bedheadboard manufacturer in Ramsetbottom, Lancs.

Annual turnover is about £1.5m and the receivers, Mr P. Ramsbottom and Mr P. T. Masterson of Peat Marwick, are continuing to trade while seeking a buyer for the business.

There was again no tax charge.

BOARD MEETINGS

The following companies have notified Board meetings to the Stock Exchange. Such meetings are held for the purpose of considering dividends. Financial indications are not available as to whether the dividends are interim or final and the sub-divisions shown below are based mainly on last year's results.

TODAY

Interbury—Archie, Siddle, Bent Chemicals, International Corp.

English Stores, Estates and General Investments, Hosking and Morton, L.C. Inchcape, Janke and Castell, London, London, London, London, Miles 33, Nemaire International, Northern Engineering Industries, Octopus Publishing, London, Ram, Tomales, Oceanside, Torrey, Malibu, Malibu, Wimoughue, James Wilkes.

Finlays—Basic Leasing, Inall Industries, Ramer Textiles

FUTURE DATES

Interim:

Contour Hotels International ... Oct 3

English National Investment ... Oct 25

House of Lords ... Oct 5

Imperial Chemical Industries ... Oct 10

Lamont ... Oct 3

Longton Industrial ... Oct 8

Mardi (Albert) ... Oct 5

St. Gobain ... Oct 3

Sequoia ... Oct 13

Kalamazoo ... Oct 18

Lowfield Investments ... Oct 21

Rainbow Industries ... Oct 4

St. Gobain ... Oct 3

St

BIDS AND DEALS

CHECKERS STORES LIMITED

(Incorporated in the Republic of South Africa)

PRELIMINARY PROFIT STATEMENT TO SHAREHOLDERS FOR THE YEAR TO JUNE 1983

Results

The unaudited consolidated results of the Company and its Subsidiaries are as follows:-

Notes	Unaudited		Audited	
	52 weeks ended 2 July 1983	53 weeks ended 3 July 1982	52 weeks ended 2 July 1983	53 weeks ended 3 July 1982
Turnover of continuing operations	1,146,421	1,119,711		
Turnover of discontinued operations	7,998	84,026		
Total turnover	1,154,419	1,203,737		
Operating loss from continuing operations including the attributable earnings of associated companies	5,560	6,696		
Cost of borrowings	6,720	9,802		
Interest paid	5,680	8,810		
Dividends on Redeemable Preference Shares	1,940	992		
Loss from continuing operations before taxation	12,280	16,498		
Taxation	870	(2,567)		
Loss from continuing operations after taxation	12,150	13,931		
Interest of outside shareholders	14	(109)		
Loss from continuing operations	13,164	13,822		
Loss from discontinued operations	1,005	7,388		
Loss before abnormal item	14,169	21,210		
Abnormal item	1,286	—		
Loss before extraordinary item	15,455	21,210		
Extraordinary profit (loss)	7,245	(10,958)		
Net loss for the period	8,210	32,168		
Dividends	1,530	2,046		
Ordinary dividend	284	852		
Preference dividend	1,246	1,194		
Prior years' adjustment	9,740	34,214		
Net diminution in equity of the group	9,740	1,637		
Ordinary and 'A' Ordinary Shares:				
Number of fully paid shares in issue	5,682,846	5,682,846		
Losses from continuing operations before extraordinary items (cents per share)	276.2	264.3		
Dividend (cents per share)	5.0	15.0		

Notes:

1. The method of accounting for interest and other carrying costs directly associated with land development has been changed so as to capitalise rather than expense these costs as incurred. The effect of this change has been to reduce the loss from continuing operations before taxation for the year to 30th June 1983 by R1,241,000 (1982-R348,000).
2. The abnormal item is a part-provision for certain costs incurred in December of every year. It is considered appropriate to provide for these costs on a monthly basis throughout the calendar year and the amount of R1,286,000 represents the charge for the 6 months to June 1983. The effect of this change in accounting treatment is to charge against Income statement actually incurred in December 1982 as well as the provision made for the 6 months to June 1983.
3. Extraordinary items are mainly comprised of profits realised on the sale of properties and the post-decision date costs of closing the Gremers Department Store in Pretoria and The Check-In Convenience Store Chain.

Comments

The losses from continuing operations for the year largely reflect the problems of the Company at the time of the change-of-control, and the cost of resolving these problems. Management is satisfied that all problem areas have now been addressed and that financial disciplines and proper administrative procedures have been installed and are operating effectively. It is our view that a substantial portion of the losses relates to periods prior to that under review. Our original objective was to achieve a more pre-oven position by June 1983 and then to build on this basis. We have achieved this. With the problems of the current situation, we believe that far in the new financial year are in excess of budget and represent real growth over the levels achieved in the previous year. In accordance with expectations, a satisfactory profit was earned. In the month of July, and preliminary estimates for August indicate that this trend is continuing. It is anticipated that the Company will trade profitably throughout the year, given no marked deterioration in present business conditions.

An aggressive new store and refurbishment programme has been embarked upon, extending into 1985, with 3 new stores recently opened and a further 9 opening before the end of December 1983. The reaction of our customers to these new stores is most gratifying and the sales volumes achieved have exceeded expectations.

Ordinary Dividend

The Articles of Association of the Company make provision for the various classes of non-voting shares to obtain voting rights in the event of non-payment of a dividend. The Board is of the opinion that the preservation of the existing control situation is in the best interest of all parties concerned, and accords with the recent successful rights offer to shareholders which was made on the assumption that the control situation prevailing at that time would continue.

Accordingly, the Board has decided to declare an ordinary dividend of 5 cents per share to Ordinary and 'A' Ordinary Shareholders.

By Order of the Board
N. Kirsh
Chairman
15th September 1983

DECLARATION OF FINAL ORDINARY DIVIDEND NO. 82

NOTICE IS HEREBY GIVEN that a final dividend of 5 (five) cents per share (1982: 15 cents) for the year ended 30th June 1983, has been declared by the Board of Directors payable on 11th November 1983, to Ordinary and 'A' Ordinary Shareholders registered in the Books of the Company at the close of business on Friday, 14th October 1983.

The dividend is declared in South African currency and dividends payable from the London Office will be paid in United Kingdom currency calculated at the rate of exchange ruling between Rand and Sterling on the 14th October 1983.

Dividend cheques despatched from the London Office to persons resident in Great Britain and Northern Ireland will be subject to a deduction of United Kingdom Income Tax at rates to be arrived at after allowing for relief (if any) in respect of South African Taxes.

The Company will where applicable, deduct the non-resident shareholders' tax of 15 per cent from dividends payable.

For the purpose of paying the above dividend the Ordinary and 'A' Ordinary Share Register will be closed from 15th October to 29th October 1983, both days inclusive.

Dividend cheques will be posted on or after 11th November 1983.

Registered Office:
220 Commissioner Street,
Johannesburg.

London Transfer Secretaries:
Granby Registration Services,
Bourne House,
34 Beckenham Road,
Beckenham, Kent, BR3 4TU.

Ancon Insurance Company (U.K.) Limited

The Board of Directors of Ancon Insurance Company (U.K.) Limited at a meeting held on September 14 1983 announced plans to increase the authorized and paid-up capital of the Company from the present £5 million total to £10 million.

Ancon Insurance Company (U.K.) Limited is a wholly-owned affiliate of Exxon Corporation. It is anticipated that the capital increase will be effected early in December following Board action by the immediate parent company of Ancon Insurance Company (U.K.) Limited, Ancon Insurance Company, S.A., whose Head Office is in Hamilton, Bermuda.

Ancon Insurance Company (U.K.) Limited
8 Lime Street
London EC3M 7NA
01-283 8241

Pritchard 'shut-out' position clarified

By Ray Maughan

THE Panel on Takeovers and Mergers has clarified the circumstances by which certain major institutions have allowed Pritchard Services Group a 'shut-out' in respect of the bid for Spring Grove, the troubled workwear hire and towel rental group.

The institutions have agreed to accept Pritchard's £15m offer in respect of 14.1 per cent of Spring Grove's equity which, with earlier acceptances, gives Pritchard majority control and effectively shuts out rival bid for Spring Grove from Sunlight Services Group.

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Britoil taps the
Euromarkets
for \$100m, Page 38

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SECTION III - INTERNATIONAL MARKETS

FINANCIAL TIMES

Tuesday September 27 1983

WALL STREET

Brief pause precedes new heights

MONEY SUPPLY euphoria was conspicuous by its absence on Wall Street stock markets yesterday as the usual Monday morning hangover from Friday night's weekly M-1 figures failed to manifest itself at first in a determined move in any direction, writes Gordon Cramb in New York.

A mid-afternoon revival, however, again took the Dow Jones Industrial average into uncharted territory. After wavering during the morning either side of its pre-weekend close, it closed up 5.18 at 1260.77, a new record.

The 910 issues overall which showed gains were offset by 878 with losses on the day. Volume reached some 86.83m shares.

This lack of initial motivation was, however, seen less as a sign of any fundamental distress than as an understandable symptom of a market which has been well fed with gains and needed occasional pauses for digestion. In the course of last week, the Dow put on 29.88 and twice set new peaks, the second coming on Thursday at 1,257.32.

The blue chip rises were attributed in part to institutional window-dressing as the end of the quarter nears this Friday.

Relatively few issues in the broader market had recorded new highs in tandem with the Dow.

While further rallies remained in prospect, those which were mistimed or too timidly based were prone instead to precipitate steep falls, one analyst said.

Create markets, which saw substantial rate markdowns in the final hour of last week after M-1 emerged \$2.1bn down, underwent modest early adjustments to provide further improvements at the short end but a slight tug downward in longer-dated prices.

For the first time since September 14 the Federal Reserve allowed its usual mid-morning intervention period to pass without moving to aid liquidity. Fed Funds, bid as low as 8% per cent on Friday, edged up to 8% but remained still well below the recent 9% midpoint.

With last week's \$14.25bn Treasury funding programme successfully accomplished, the way is now clear for the Fed to act more on its own motivations rather than be required largely to play escort. Clear signals of its thinking or rates were still being sought yesterday, however, although an easing in policy has been discerned in some quarters.

In the stock market, many smaller airlines were given a rough ride after news of Continental's appeal to the bankruptcy courts to help disentangle its labour problems. Texas Air, the largest shareholder of Continental, slid 5% to an early 55% in dealings on the American Stock Exchange, but later rallied to 5% off 55%.

Those regarded with similar ill favour on the Big Board included Eastern, off 5% at \$5, and Western, down 5% to \$4. Ozark Air, also actively traded on the Amex, was 5% lower at \$9.

Continental itself, however, rose 5% to 53%, also on the Amex.

Baldwin United, which also filed for Chapter 11 protection from creditors, had already had its shares slashed from high over the last year of 50% to last Friday's 5%. The stock was halted at that level.

Elsewhere ACF Industries, which spurned the advances of Mr Carl Icahn, slipped 5% to \$50, while Alleghany Corporation was suspended at \$71 pending a possible renewal of a proposed American Express link-up.

Financial Corporation of America picked up 5% to \$44, while Merck gained \$3 to \$97 in an otherwise dull drug sector. Major utilities drew benefit from a recommendation to buy. Commonwealth Edison firmed 5% to \$28.6, and another of 272,300 at \$26. AT&T moved ex dividend at \$65, down \$2.

Government paper showed the three-month Treasury Bills being discounted some ten basis points lower at 8.72 and the six-month counterparts at 8.80, five basis points off. As recently as last Wednesday the six-month rate was above 9 per cent.

At the long end, the benchmark 12 per cent bond of 2013, which had touched 105 late on Friday and opened again at that level, eased to 104% to yield 11.41 per cent. In the corporate sector no sizeable new issues appeared, although a good volume of new securities is expected now that the Treasury's needs have been met.

LONDON

Trade in BP fades after bright start

INTEREST centred almost entirely on the oils sector at the beginning of trading in London yesterday as first-time dealings in BP partly-paid shares got under way.

Once the early excitement had died away, however, business waned noticeably in oils and other sectors. It was left to the gilt-edged market to enliven proceedings as hopes of lower interest rates, brought about by the fall in the latest U.S. M-1 money supply figures continued to push this market higher.

BP's £2 partly-paid shares touched 220p before closing at 206p; the old shares ended a couple of pence dearer on balance at 43p, after 44p.

The FT 30-share Industrial Ordinary index, up 3.5 at 10am, had drifted lower to stand 0.4 easier at 3pm before advice from Wall Street prompted a further decline which left the index 4.4 points down at the day's lowest level of 702.5. Details, Page 31; Share Information Pages 32-33.

AUSTRALIA

RESOURCE issues were the major gainers as Sydney stocks recouped their losses of the past week yesterday, spurred on by the larger than expected decline in U.S. money supply.

The All Ordinaries index gained steadily all day to close 12.3 points ahead at 720.3, while the All Resources marker put on 18.4 to 592.2 after strong advances by mining and oil and gas stocks.

SINGAPORE

LIGHT buying combined with a degree of profit-taking to leave prices generally mixed in a nervous and uncertain Singapore market. Major issues were for the most part neglected and, apart from some demand for secondary industrial stocks, the market was stagnant. The Straits Times index was virtually unchanged at 980.56 for a gain of 0.15.

HONG KONG

FLUCTUATIONS in the exchange value of the local dollar following last week's dive brought life back to a Hong Kong market which has long been depressed by political considerations.

Talk of government moves to strengthen the currency sent share prices and the Hang Seng index shooting up from the opening, only to settle back at a 9 point gain after an hour and at Friday's depressed close by mid-session. But another run in the afternoon pushed the index up 24.54 points to a close of 810.02.

SOUTH AFRICA

THE GOLD sector continued firm in Johannesburg yesterday, despite a slight retreat in the bullion price.

Among heavyweights, Kloof gained R2.5 to R54.00 while cheaper priced producer Welkom rose 50 cents to R16.50 and Elsburg closed 15 cents higher at R4.95.

CANADA

A SHARP downturn in energy stocks marked trading in Toronto yesterday. Gains were also lower at midday but other metals and minerals showed gains and the general market index had edged ahead. In Montreal, prices rose marginally in light trading, although paper producers eased.

TOKYO

Technical lift ends easier tone

SHARE prices turned lower in the morning yesterday in Tokyo, despite the good news of a sharp drop in the M-1 measure of U.S. money supply and a rebound in the yen against the dollar. But revived buying interest in blue chips in the afternoon, in advance of securities firms' new accounting year in October, recouped early losses, writes Shigeo Niizuka of *Yomiuri Shimbun*.

Bond prices firmed in response to lower long and short-term interest rates in the U.S.

The Nikkei-Dow market average, which closed the morning session 3.86 points down, finished the day 31.78 points up at 6,245.78.

Declining issues outnumbered gainers, 333 to 313, and volume fell, indicating a lack of sparkle in the market.

With the new business year just ahead, securities companies are planning to make a market for shipbuilding, heavy electrical and synthetic fibre issues which are comparatively low in price and are expected to show better earnings results.

As shares bought are delivered on the fourth business day following the day of contract, the market in effect enters the month of October today.

Among shipbuilders, Mitsubishi Heavy Industries gained Y1 to Y268 and Ishikawajima-Harima Heavy Industries Y8 to Y177.

Elsewhere, blue chips gained across a broad front in late active trading, with Matsushita Electric Industrial adding Y30 to Y1,780, NEC Y20 to Y1,480, Fuji Photo Film Y40 to Y2,460, Toyota Motor Y40 to Y1,280 and Honda Motor Y6 to Y910.

But Sony lost Y20 to Y3,740, trimming the early gains posted on good operating results. Arabian Oil, which had once attracted speculative interest, slid Y280 to Y4,920 and Aoki Construction also fell Y10 to Y980.

Bond prices firmed on lower U.S. interest rates in thin trading. With buying

interest reviving among institutional investors, leading brokerage houses were scrurrying to increase their bond holdings.

As a result, the benchmark long-term 7.5 per cent issue, maturing in January 1993, was marked up to yield 7.74 per cent, down from 7.79 per cent last Saturday. The yield on the long-term 7.7 per cent issue, maturing in November 1988, also fell sharply to 7.43 per cent from Saturday's 7.46 per cent.

electricals, AEG gained DM 1.80 to DM 83.90, but Brown Boveri was off DM 3 at DM 223.

Engineers were particularly firm, with Linde surging DM 7 to DM 319.50 and KHD DM 6.50 up to DM 257.50. MAN climbed DM 3.80 to DM 142.80.

In motors, Daimler put on DM 3.50 to DM 578.50 while VW gained DM 2.30 to DM 219.70 and BMW, DM 2.70 to DM 385.70.

Friday's stronger U.S. credit markets also encouraged German domestic bond markets and prices firmed by as much as 50 basis points.

Neither the sharp decline of the franc against the D-Mark nor yesterday's % point rise in the French call money rate to 12% per cent could divert buyers in Paris from their expectations of gains on Wall Street.

Prices opened higher and continued upward in fairly active trading, with gains across the board apart from some selective selling of banks, engineering and oil. Foods were a strong point, with BSW gaining FF 53 to FF 2,048 and Moet Hennessy FF 48 to FF 1,250.

Despite generally quiet trading, a firmer tone in Amsterdam took the General index 1.3 points ahead to a record 144.0. Most issues showed gains, although a few slipped from opening highs.

Philips fell against the trend in internationals, shedding 70 cents to FI 48.30 on light selling and an absence of U.S. interest. Ocs van der Grinten stood out with a FI 3.20 gain to FI 213 while Elsevier, despite falling from its opening level, was FI 1 higher than Friday at FI 403.

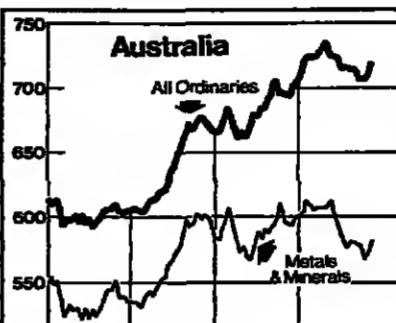
Confimation of the end of the public sector strike lifted sentiment in Brussels. The prospect of improved earnings saw selected stocks firm but the rally was wide based. Holding company Sofina surged BFr 130 to BFr 5,180 while in utilities, Tractebel added BFr 50 to BFr 3,450.

Steel issues were mixed but oils made no progress.

Disappointing half-year corporate results last week dampened enthusiasm in Zurich, and the prospect of a boost for Wall Street stocks failed to encourage buyers. Prices closed mixed.

Trading was subdued in Milan as investors waited to hear the government's plans for dealing with Italy's public sector deficit, and prices closed mixed.

Gainers included Montedison, L2.25 ahead at L204.25, and Italceram, industrial subsidiary of the Pesenti group.



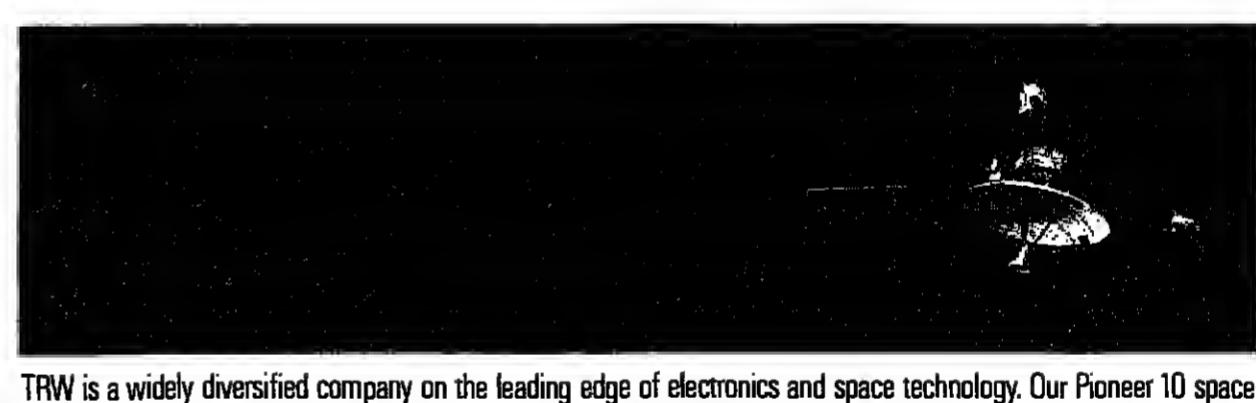
EUROPE

M-1 surprise lifts interest rate hopes

THE PROMISE of a fall in U.S. - and consequently world - interest rates held out by Friday's announcement of a surprisingly large drop in U.S. M-1 money supply imparted a new vitality to European bourses yesterday.

In Frankfurt, the prospect of an easier dollar combined with recent favourable forecasts for West German corporate profits to fuel a steady rise in active trade which pushed the Commerzbank index, calculated at mid-session, ahead 6.1 to 940.9.

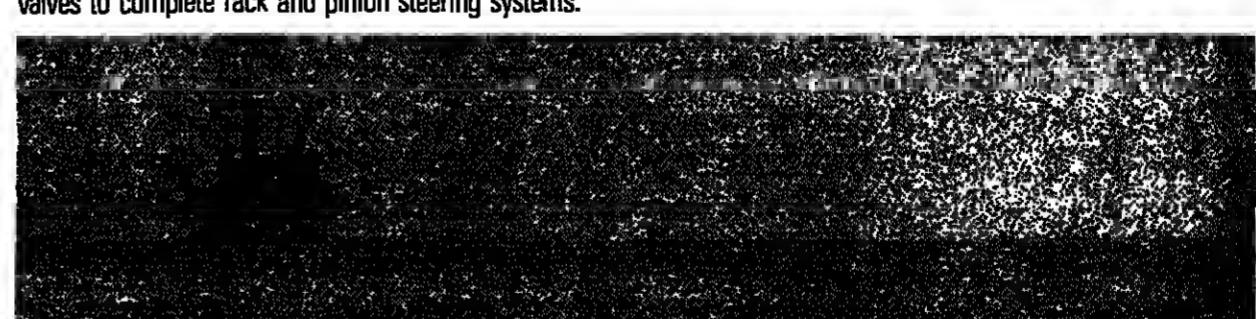
Leading the advance, Siemens added DM 5.30 to close at the day's high of DM 346 after rumours of a scrip issue in place of a dividend increase. In other



TRW is a widely diversified company on the leading edge of electronics and space technology. Our Pioneer 10 spacecraft (pictured) was the first man-made object to leave the solar system. And TRW electronic components have hundreds of down-to-earth applications — from computer tape drives to television sets.



TRW began as an automotive parts manufacturer over 80 years ago. Today, almost every car and truck on the road contains TRW parts. TRW factories around the globe produce a wide range of automotive parts — from bearings and valves to complete rack and pinion steering systems.



TRW industrial and energy products have earned a reputation for reliable performance. TRW equipment, backed up by an extensive field service and repair network, helps pump oil and gas around the world. TRW components keep the world's aircraft flying, and TRW bearings, tools, and fasteners help raise productivity levels worldwide.

TRW

A Company Called TRW

KEY MARKET MONITORS							
End Month Figures							
Standard & Poors 500 (Composite)							
1978	1260.77	1255.59	919.52				
1979	152.66	158.43	369.60				
1980	134.78	133.43	117.08				
1981	170.07	169.51	123.32				
1982	702.50	706.90	580.50				
1983	450.84	450.90	361.00				
FT-A 50A	487.98	488.31	400.75				
FT-A Ind	457.40	437.90	373.98				
FT Gold mines	634.50	625.20	357.00				
FT Govt secs	82.43	82.17	79.12				
STOCK MARKET INDICES							
U.S. DOLLAR STERLING							
(London)	Sept 26	Previous	Sept 26	Previous			
S	-	-	1,504.00	1,502.00			
DM	2,644.5	2,657.0	3,980.00	3,982.50			
Yen	237.70	239.90	357.75	360.50			
FFr	80.175	80.400	12,055	12,072.5</			

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued on Page 3

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

11. *Leucosia* (Leucosia) *leucosia* (Linnaeus)

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise specified, rates of dividends are annual disbursements based on 100 shares.

noted. rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extract b-annual rate of dividend plus stock dividend c-liquidating dividend d-called d-new yearly low e-dividend declared or paid in preceding 12 months f-declared g-declared h-declared i-declared j-declared k-declared l-declared m-declared n-declared o-declared p-declared q-declared r-declared s-declared t-declared u-declared v-declared w-declared x-declared y-declared z-declared

low ϵ -dividend declared or paid in preceding 12 months plus dividend in Canadian funds subject to 15% non-residence tax. Dividend declared after split-up or stock dividend ϵ -dividend paid this year, credited, deferred or no action taken at latest date.

paid the year omitted, deferred, or no action taken at latest dividend meeting & dividend declared or paid this year an accumulation issue with dividends in arrears or new issue in the

past 52 weeks. The high-low range begins with the start of trading and next day delivery P-E-price-earnings ratio—dividend declared or paid in preceding 12 months, plus stock dividend.

declared or paid in preceding 12 months, plus stock dividend + stock split. Dividends begin with date of split 5/5-1985 + dividend paid in stock in preceding 12 months estimated cash

value on ex-dividend or ex-distribution date U-New year/ high v-trading rated with bankruptcy or receivership or being re-organised under the Bankruptcy Act, or securities assumed by

organised under the Bankruptcy Act, or securities assumed by such companies. *wi*-when distributed. *in*-when issued *wn*-with warrants *de*-dividend or *ex*-rights *dis*-a distribution

with warrants =-e-a-dividend or ex-rights +dis-e-a-distribution
xw-without warrants y-e-a-dividend and sales in full yield-weld
z=sales in full

11. *Leucosia* (Leucosia) *leucosia* (Linné)

LONDON STOCK EXCHANGE

MARKET REPORT

RECENT ISSUES

Busy first-time trading in BP new shares soon fades
Equity index down 4.4-Gilts up again

Account Dealing Dates

*First Dealing - Last Account Dealing - Date Dealing Day
Sept 19 Sept 29 Sept 28 Oct 10
Oct 12 Oct 17 Oct 22 Oct 24
Oct 17 Oct 22 Oct 23 Nov 7

**"New-line" dealing may take place from 9.30 am two business days

For a thirty minute period after the start of business yesterday, interest in London Stock markets centred almost entirely on the oil pitches, with BP and Esso, and in particular their shares, getting under way. Once the early excitement had died away, however, business waned noticeably in the oil and other equity sectors. It was left to the Gilts-edged market to enliven proceedings, with the new issues continuing to push the sector higher.

Following the announcement of the striking price of the 130m BP shares—higher than recent estimates at 435p—and the allocation details, dealings in the 25p paid shares began at 120p premium to 122p. The price reached 200p before closing at 206p; the old shares ended a couple of pence dearer on balance at 435p, after 446p; dealers described the day as rather disappointing—although overall turnover in the new shares was rumoured to have been in the region of 16m. It was suggested that business was well under way when all successful applicants had been informed.

The \$3.1bn fall in the latest US money supply figures further encouraged hopes of an early cut in interest rates and led to renewed firmness in the market. Gains in the medium and long-dated issues started to just over a point of one pence as buyers anticipated a cheaper money.

Once again, however, the Bank of England signalled its reluctance to lower intervention rates which prompted some profit-taking. Closing gains extended to only 1, while short-dated securities closed mixed.

The FT Government Securities index moved up 0.26 to 82.43—its highest since June 20. The 3.30 pm announcement of a new £10m T-11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 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INDUSTRIALS—Continued

LEISURE—Continued

PROPERTY—Continued

INVESTMENT TRUSTS—Continued

OIL AND GAS—Continued

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MINES—continued

1983	High	Low	Stock	Price	Yield	Div.	Wk.	Mo.	Y.M.	PE
200	120	110	Austrian Expl. NL	82	—	—	—	—	—	—
201	120	110	Australasia Min. NL	35	—	—	—	—	—	—
202	120	110	B.C. Gold Min. NL	35	—	—	—	—	—	—
203	120	110	Black Hill Min.	62	—	—	—	—	—	—
204	120	110	Black Rock Min.	82	—	—	—	—	—	—
205	120	110	Black Rock 10m	86	—	—	—	—	—	—
206	120	110	Black Rock 50c	56	—	—	—	—	—	—
207	120	110	Black Rock Gold	120	—	—	—	—	—	—
208	120	110	Black Rock Gold	15	—	—	—	—	—	—
209	120	110	Black Rock Gold	16	—	—	—	—	—	—
210	120	110	Black Rock Gold	17	—	—	—	—	—	—
211	120	110	Black Rock Gold	18	—	—	—	—	—	—
212	120	110	Black Rock Gold	19	—	—	—	—	—	—
213	120	110	Black Rock Gold	20	—	—	—	—	—	—
214	120	110	Black Rock Gold	21	—	—	—	—	—	—
215	120	110	Black Rock Gold	22	—	—	—	—	—	—
216	120	110	Black Rock Gold	23	—	—	—	—	—	—
217	120	110	Black Rock Gold	24	—	—	—	—	—	—
218	120	110	Black Rock Gold	25	—	—	—	—	—	—
219	120	110	Black Rock Gold	26	—	—	—	—	—	—
220	120	110	Black Rock Gold	27	—	—	—	—	—	—
221	120	110	Black Rock Gold	28	—	—	—	—	—	—
222	120	110	Black Rock Gold	29	—	—	—	—	—	—
223	120	110	Black Rock Gold	30	—	—	—	—	—	—
224	120	110	Black Rock Gold	31	—	—	—	—	—	—
225	120	110	Black Rock Gold	32	—	—	—	—	—	—
226	120	110	Black Rock Gold	33	—	—	—	—	—	—
227	120	110	Black Rock Gold	34	—	—	—	—	—	—
228	120	110	Black Rock Gold	35	—	—	—	—	—	—
229	120	110	Black Rock Gold	36	—	—	—	—	—	—
230	120	110	Black Rock Gold	37	—	—	—	—	—	—
231	120	110	Black Rock Gold	38	—	—	—	—	—	—
232	120	110	Black Rock Gold	39	—	—	—	—	—	—
233	120	110	Black Rock Gold	40	—	—	—	—	—	—
234	120	110	Black Rock Gold	41	—	—	—	—	—	—
235	120	110	Black Rock Gold	42	—	—	—	—	—	—
236	120	110	Black Rock Gold	43	—	—	—	—	—	—
237	120	110	Black Rock Gold	44	—	—	—	—	—	—
238	120	110	Black Rock Gold	45	—	—	—	—	—	—
239	120	110	Black Rock Gold	46	—	—	—	—	—	—
240	120	110	Black Rock Gold	47	—	—	—	—	—	—
241	120	110	Black Rock Gold	48	—	—	—	—	—	—
242	120	110	Black Rock Gold	49	—	—	—	—	—	—
243	120	110	Black Rock Gold	50	—	—	—	—	—	—
244	120	110	Black Rock Gold	51	—	—	—	—	—	—
245	120	110	Black Rock Gold	52	—	—	—	—	—	—
246	120	110	Black Rock Gold	53	—	—	—	—	—	—
247	120	110	Black Rock Gold	54	—	—	—	—	—	—
248	120	110	Black Rock Gold	55	—	—	—	—	—	—
249	120	110	Black Rock Gold	56	—	—	—	—	—	—
250	120	110	Black Rock Gold	57	—	—	—	—	—	—
251	120	110	Black Rock Gold	58	—	—	—	—	—	—
252	120	110	Black Rock Gold	59	—	—	—	—	—	—
253	120	110	Black Rock Gold	60	—	—	—	—	—	—
254	120	110	Black Rock Gold	61	—	—	—	—	—	—
255	120	110	Black Rock Gold	62	—	—	—	—	—	—
256	120	110	Black Rock Gold	63	—	—	—	—	—	—
257	120	110	Black Rock Gold	64	—	—	—	—	—	—
258	120	110	Black Rock Gold	65	—	—	—	—	—	—
259	120	110	Black Rock Gold	66	—	—	—	—	—	—
260	120	110	Black Rock Gold	67	—	—	—	—	—	—
261	120	110	Black Rock Gold	68	—	—	—	—	—	—
262	120	110	Black Rock Gold	69	—	—	—	—	—	—
263	120	110	Black Rock Gold	70	—	—	—	—	—	—
264	120	110	Black Rock Gold	71	—	—	—	—	—	—
265	120	110	Black Rock Gold	72	—	—	—	—	—	—
266	120	110	Black Rock Gold	73	—	—	—	—	—	—
267	120	110	Black Rock Gold	74	—	—	—	—	—	—
268	120	110	Black Rock Gold	75	—	—	—	—	—	—
269	120	110	Black Rock Gold	76	—	—	—	—	—	—
270	120	110	Black Rock Gold	77	—	—	—	—	—	—
271	120	110	Black Rock Gold	78	—	—	—	—	—	—
272	120	110	Black Rock Gold	79	—	—	—	—	—	—
273	120	110	Black Rock Gold	80	—	—	—	—	—	—
274	120	110	Black Rock Gold	81	—	—	—	—	—	—
275	120	110	Black Rock Gold	82	—	—	—	—	—	—
276	120	110	Black Rock Gold	83	—	—	—	—	—	—
277	120	110	Black Rock Gold	84	—	—	—	—	—	—
278	120	110	Black Rock Gold	85	—	—	—	—	—	—
279	120	110	Black Rock Gold	86	—	—	—	—	—	—
280	120	110	Black Rock Gold	87	—	—	—	—	—	—
281	120	110	Black Rock Gold	88	—	—	—	—	—	—
282	120	110	Black Rock Gold	89	—	—	—	—	—	—
283	120	110	Black Rock Gold	90	—	—	—	—	—	—
284	120	110	Black Rock Gold	91	—	—	—	—	—	—
285	120	110	Black Rock Gold	92	—	—	—	—	—	—
286	120	110	Black Rock Gold	93	—	—	—	—	—	—
287	120	110	Black Rock Gold	94	—	—	—	—	—	—
288	120	110	Black Rock Gold	95	—	—	—</td			

COMMODITIES AND AGRICULTURE

UK's grain harvest falls in spite of record wheat crop

BRITAIN'S WHEAT crop will be a record 10.7m tonnes this year. Barley production, however, will be 1.5m tonnes down at 9.4m tonnes and the total grain harvest at 20.6m will be 1.3m down on last year's record, with output of oats and mixed corn also lower.

These predictions, announced yesterday at the annual harvest luncheon of the UK Agricultural Supply Trade Association (Ukarta), compare with the 21.3m-tonne harvest recently forecast by the Agriculture Ministry.

Mr Alan Price, Ukarta president, said the same harvest pattern appeared to have occurred in the rest of the EEC. The total barley shortfall as against last year in the European Community was estimated as being about 5m tonnes. This was the basis of the very strong trade for malting barley. Imports were being bought on the Continent to make up the shortfall.

Practically no grain was being offered for sale into intervention, as market prices for feed

grains were well above the support level. Some anxiety, however, was expressed about the new quota system governing intervention support-buying for breadmaking wheat in the Community. It is thought doubtful that the UK will be able to obtain a worthwhile quota when the scheme opens in October. The UK's share would mostly go to France.

There was a good deal of comment about the strength of the wheat trade in view of the heavy harvest. It is claimed that prices are too high for the export trade and farmers were being unwise in sticking out for higher levels in view of the record wheat harvest. Exports of wheat from the UK were very low and those for barley looked like being restricted to meeting quality or malt.

The grain market in such good order that storage was no problem, Mr Price pointed out. He noted that the high domestic grain prices were bound to make things very difficult for intensive livestock farmers.

Lead prices surge ahead

LEAD PRICES surged ahead on the London Metal Exchange yesterday, reaching the highest level since April this year. Cash lead closed \$9.5 up at \$281.75 a tonne, after gaining \$13 on Friday.

The upward trend was encouraged by news of more North American domestic price rises, with both Comex and Amex lifting their quotations by 2 cents to 25 cents a lb following better demand from battery-makers. Heavy speculative buying interest was triggered off by the market

breaking out of its recent narrow price range.

Virtually ignored was yet another rise of 3,275 tonnes in lead stocks held in LME warehouses, taking total holdings to a record level of 215,225 tonnes.

Copper stocks rose again by 30,000 tonnes to a 4-year peak of 375,000 tonnes. Early price gains in the market were wiped out in later trading and the market fell further in afternoon trading.

Zinc stocks rose by 525 to 133,075 tonnes; nickel by 330 to 24,564 tonnes; and silver by 640,000 to 37,520,000 ounces.

EEC stocks of skimmed milk powder double

By Our Commodities Editor

EUROPEAN Community stocks of skimmed milk powder doubled to 1.1m tonnes by the middle of this month, from 549,000 tonnes a year earlier, trade sources said in Hamburg.

The sharp rise took stocks close to the 1977 record of 1.2m tonnes.

West German stocks, accounting for the bulk of EEC intervention, doubled to 662,000 tonnes over the same period.

Substantial stocks are also held in the Netherlands, Belgium and France.

Originally, the El Niño (Spanish for "the child") referred to conditions that started in some years off the coast of Peru around Christmas.

Warm water spread over the top of normally cold nutrient-rich coastal waters, with catastrophic effects on the local anchoveta fisheries. Now the term has come to mean occasions when anomalously warm surface waters cover much of the tropical Pacific.

The importance of such events is that they are part of a large-scale atmospheric and oceanic fluctuation which occurs on average every three years, but the time between successive El Niños can vary from two to 10 years.

Clearly, if these variations can be linked to widespread adverse weather then, because they tend to occur in a some-

what predictable manner, they may provide the key to forecasting these extremes.

The broad weather patterns linked with the El Niño have been recognised since the 1920s when Sir Gilbert Walker presented clear evidence of a seesaw effect that "when pressure is high in the Pacific Ocean it tends to be low in the Indian Ocean from Africa to Australia and vice versa."

Only in recent years has it become clear how this behaviour is part of the whole process of the El Niño.

What happens is that in a remarkably predictable way the warm water which first appears off the coast of Peru over the course of a year spreads right across the entire Pacific like a huge tongue.

This development is associated with a decline in atmospheric pressure over the eastern Pacific and a rise over Australia and the Indian Ocean.

As an indication of this, an analysis of corn yields in the Midwest of the U.S. over the past 100 years has

shown that the summer weather patterns over the United States were probably a consequence of such worldwide changes.

The extraordinary cold winter of January 1977 in the United States and the worldwide abnormal weather patterns in the summer of 1972

the opposite occurred this year.

Not only can the El Niño

be implicated in the drought in India last year and the droughts in northeast Brazil, central America and Southern Africa.

The effect of these unusual patterns are not confined to the tropics. The extreme weather patterns over the United States

this summer were probably a consequence of such worldwide changes.

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Meanwhile, those wishing to detect future movements in commodity prices in current changes in the tropical Pacific should be wary of oversimplified explanations about the way the global weather machine works.

Detecting price trends from global weather

A special correspondent looks at the possible impact of the tropical Pacific Ocean's El Niño

Another problem is that in some years when the conditions appear to be ripe for the build-up of the El Niño, it inexplicably fails to materialise. So it is not possible to predict when the tropical Pacific is going to be well advanced, by which time the forecasting advantage is much reduced.

This shows that because the tropics are the mighty engine driving much of the weather machine, changes here have major global consequences. But because we know so little about how all the mechanisms operate it is only with hindsight that we can explain the consequences of the changes.

Not until we have a more complete picture of what is happening in the tropics—information that will only come with the use of improved satellite systems—will we be able to improve our understanding of how worldwide weather anomalies are linked to events like the El Niño.

Meanwhile, those wishing to detect future movements in commodity prices in current changes in the tropical Pacific should be wary of oversimplified explanations about the way the global weather machine works.

ALL OVER the world, this year has been marked by more than fair share of abnormal weather.

One explanation proposed for recent droughts as far apart as the U.S. Midwest, Australia and South Africa is that they are caused by changes in the surface temperature over a large part of the tropical Pacific Ocean often known as the El Niño.

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The consultation attended by

about 200 representatives of

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He opened Unido's catalytic

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CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

M1 weakens dollar in thin trade

Friday's fall of \$1.1m in U.S. weekly M1 money supply was much larger than expected, sending the dollar down sharply in New York. The trend continued in Europe yesterday, but a slowdown in the trading as the markets awaited indications of easier Federal Reserve monetary policy, and lower U.S. interest rates. The downward drift was also encouraged by expectations of another large U.S. budget deficit to be announced on Wednesday.

Sterling moved down with the dollar, showing little reaction to the UK August trade figures. As expected these were better than the deficit recorded in July.

LIBOR—Trade-weighted index (Bank of England) 12.74 against 12.21 six months ago. The dollar has retreated from the peaks touched in August, amid growing hopes that a recovery may be imminent, following several weeks of good M1 money supply figures. An easing of Federal Reserve monetary policy, leading to lower U.S. interest rates, has been anticipated for some time, but previous disappointments will encourage some market caution.

The dollar fell to DM2.6445 from DM2.6570 against the U.S. dollar to 6.0175 from FFr 8.04 against the French franc to SwFr 2.1225 from SwFr 2.15 in terms of the Swiss franc, and to Yen 37.70 from Yen 39.30 against the Japanese Yen.

STERLING—Trading range against the dollar in 1963 is 1.6245 to 1.6450. August average 1.6257. Trade-weighted index 84.6 against 84.6 at noon, 84.7 at the start, and 78.4 at the previous close.

The pound has been very steady recently, and the probable weakening against Continental currencies in sympathy with the dollar is likely to be welcomed. Sterling's recent gains, coupled with hopes of lower U.S. interest rates, has encouraged speculation about lower London

rates. The pound traded within a fairly narrow range of \$1.5010 to \$1.5075. It opened at \$1.5060-1.5070, and closed at \$1.5035-1.5050, a loss of 1.5 per cent on the day. On the other hand, sterling fell to DM 3.98 from FFr 3.9255, to Fr 3.97 from Fr 3.9231, and to Yen 357.75 from Yen 360.50.

D-MARK—Trading range against the dollar in 1963 is 1.7251 to 2.3220. August average 1.7256. Trade-weighted index 128.3 against 131.4 six months ago. Until the recent easing of U.S. M1 money supply growth, the D-mark had been at its peak for nearly 10 years, retarding the dollar's decline.

ITALIAN LIRA—Trading range against the dollar in 1963 is 1.4181 to 1.4248. August average 1.4183. Trade-weighted index 49.7 against 52.4 six months ago. The lira has fallen to record lows against the dollar this summer, and has recently shown a weaker tendency within the EMS based on an end to seasonal oil demand and a stronger D-mark.

EMS currencies were firmer against the lira at yesterday's fixing in Milan.

Changes are for ECU, thence positive change denotes a week currency. Adjustments calculated by Financial Times.

* Selling rates.

OTHER CURRENCIES

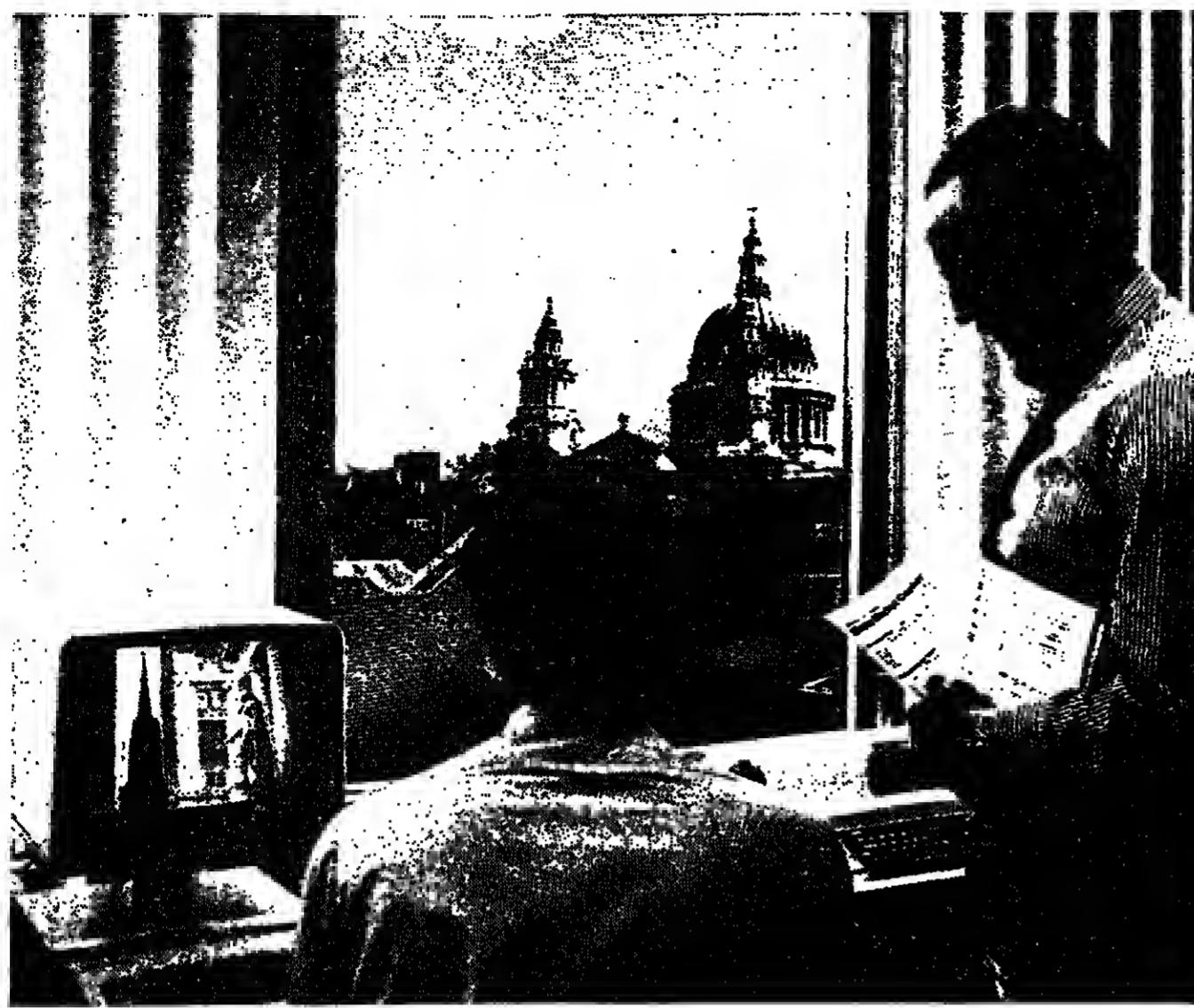
	Sept. 26	£	\$	€	Other
Note Rates					
Argentina Peso	18,950-18,958	18,950-18,955			
Australia Dollars	1.0725-1.0769	1.1155-1.1158			
Brazil Cruzeiro	1.0765-1.0769	7.165-7.179			
French Franc	5.95-5.97	11.95-11.97			
Greek Drachma	13.29-13.29	13.29-13.29			
Hong Kong Dollar	12.55-12.78	87.50			
Iceland Krona	0.44-0.44	0.44-0.44			
Swiss Franc	0.44-0.44	0.44-0.44			
Luxembourg Ft.	80.40-80.50	2.85-2.85			
Maltese Lira	0.61-0.62	0.61-0.62			
New Zealand Dollar	1.0725-1.0769	1.1155-1.1158			
Saudi Arab. Rial	9.850-9.854	3.4787-3.4820			
Singapore Dollar	8.91-8.92	2.187-2.188			
Switzerland	5.21-5.24	1.19-1.19			
U.S. Dollars	1.0725-1.0769	1.1155-1.1158			
U.A.E. Dirham	0.319-0.324	0.319-0.324			

	Sept. 26	£	\$	€	Other
Note Rates					
Argentina Peso	18,950-18,958	18,950-18,955			
Australia Dollars	1.0725-1.0769	1.1155-1.1158			
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Hong Kong Dollar	12.55-12.78	87.50			
Iceland Krona	0.44-0.44	0.44-0.44			
Swiss Franc	0.44-0.44	0.44-0.44			
Luxembourg Ft.	80.40-80.50	2.85-2.85			
New Zealand Dollar	1.0725-1.0769	1.1155-1.1158			
Saudi Arab. Rial	9.850-9.854	3.4787-3.4820			
Singapore Dollar	8.91-8.92	2.187-2.188			
Switzerland	5.21-5.24	1.19-1.19			
U.S. Dollars	1.0725-1.0769	1.1155-1.1158			
U.A.E. Dirham	0.319-0.324	0.319-0.324			

* Selling rates.

THE POUND SPOT AND FORWARD

	Sept. 26	Day's spread	Close	On month	% p.a.	Three months	% p.a.	One year	% p.a.
U.K.									
Canada	1.5010-1.5075	1.5025-1.5045	0.02 p.m.-0.02 d.m.	0.04	0.03-0.04	0.04	0.03-0.04	0.04	0.03-0.04
Denmark	4.43-4.45	4.44-4.45	0.10 p.m.-0.10 d.m.	0.32	0.13-0.13	0.30	0.17	0.30	0.17
Denmark	14.28-14.33	14.29-14.32	1-1c p.m.-1-1c d.m.	3.37	3.37-3.38	3.26	3.26-3.27	3.26	3.26-3.27
Iceland	1.2700-1.2760	1.2725-1.2733	0.10-0.10 p.m.-0.10 d.m.	1.65	0.53-0.54	0.51	0.51-0.52	0.51	0.51-0.52
W. Ger.	3.37-3.38	3.37-3.38	1-1p.m.-1-1p.d.m.	3.77	3.75-3.76	3.64	3.64-3.65	3.64	3.64-3.65
Portug. I.	1.0715-1.0720	1.0725-1.0725	12-13c p.m.-12-13c d.m.	18.36	12.75-12.76	12.24	12.24-12.25	12.24	12.24-12.25
Spain	227.25-227.30	227.25-227.27	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16.91-16.92	16.91	16.91-16.92
Norway	11.07-11.11	11.08-11.09	2-3c p.m.-2-3c d.m.	8.97	8.97-8.98	8.89	8.89-8.90	8.89	8.89-8.90
Portug. I.	1.0715-1.0720	1.0725-1.0725	12-13c p.m.-12-13c d.m.	18.36	18.36-18.37	18.00	18.00-18.01	18.00	18.00-18.01
U.S.	227.25-227.30	227.25-227.27	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16.91-16.92	16.91	16.91-16.92
U.K.	240.6-241.2	240.6-241.2	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16.91-16.92	16.91	16.91-16.92
Denmark	11.07-11.11	11.08-11.09	2-3c p.m.-2-3c d.m.	8.97	8.97-8.98	8.89	8.89-8.90	8.89	8.89-8.90
Portug. I.	1.0715-1.0720	1.0725-1.0725	12-13c p.m.-12-13c d.m.	18.36	18.36-18.37	18.00	18.00-18.01	18.00	18.00-18.01
Switz.	3.21-3.24	3.22-3.23	1-1p.m.-1-1p.d.m.	3.34	2.20-2.20	1.86	1.86-1.87	1.86	1.86-1.87
U.S.	227.25-227.30	227.25-227.27	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16.91-16.92	16.91	16.91-16.92
U.K.	240.6-241.2	240.6-241.2	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16.91-16.92	16.91	16.91-16.92
Denmark	11.07-11.11	11.08-11.09	2-3c p.m.-2-3c d.m.	8.97	8.97-8.98	8.89	8.89-8.90	8.89	8.89-8.90
Portug. I.	1.0715-1.0720	1.0725-1.0725	12-13c p.m.-12-13c d.m.	18.36	18.36-18.37	18.00	18.00-18.01	18.00	18.00-18.01
U.K.	240.6-241.2	240.6-241.2	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16.91-16.92	16.91	16.91-16.92
Denmark	11.07-11.11	11.08-11.09	2-3c p.m.-2-3c d.m.	8.97	8.97-8.98	8.89	8.89-8.90	8.89	8.89-8.90
Portug. I.	1.0715-1.0720	1.0725-1.0725	12-13c p.m.-12-13c d.m.	18.36	18.36-18.37	18.00	18.00-18.01	18.00	18.00-18.01
U.K.	240.6-241.2	240.6-241.2	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16.91-16.92	16.91	16.91-16.92
Denmark	11.07-11.11	11.08-11.09	2-3c p.m.-2-3c d.m.	8.97	8.97-8.98	8.89	8.89-8.90	8.89	8.89-8.90
Portug. I.	1.0715-1.0720	1.0725-1.0725	12-13c p.m.-12-13c d.m.	18.36	18.36-18.37	18.00	18.00-18.01	18.00	18.00-18.01
U.K.	240.6-241.2	240.6-241.2	22-23c p.m.-22-23c d.m.	17.19	17.19-17.20	16.91	16		



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Financial Highlights

(in millions of Flux)	March 31, 1983	March 31, 1982	in %
Balance sheet total	164,433	149,454	+10.0
Loans	50,647	46,585	+ 8.7
Securities	10,804	12,166	-11.2
Customer deposits	93,742	89,738	+ 4.5
Bank deposits	50,410	41,144	+22.5
Capital, borrowed capital, reserves and provisions*	9,273	7,067	+31.2
Net profit	420	368	+14.1

*after distribution of profit

Kredietbank S.A. Luxembourgeoise, associated with Kredietbank N.V., has representative offices in Australia, Brazil, Hong Kong, Mexico, South Africa, Spain, the United Kingdom and Venezuela. Kredietbank S.A. Luxembourgeoise has two

subsidiaries: Kredietbank (Suisse) S.A. in Geneva and KB Luxembourg (Asia) Ltd. in Hong Kong. The annual report is available in English, French or German on request addressed directly to our principal office.

An itemized balance sheet and profit and loss account have been published in the Memorial-Recueil Spécial des Sociétés et Associations of the Grand Duchy of Luxembourg.



**KREDIETBANK
S.A. LUXEMBOURGEOISE**

43, Boulevard Royal
L-2955 Luxembourg
Phone 47971
Telex 3418

R.C. Luxembourg B6395

CAPITAL MARKETS

Pioneer \$100m issue for Britoil

By Mary Ann Sieghart in London

BRITOIL, the oil company formerly owned by the British Government, is raising \$100m in the Eurodollar bond market in what is thought to be the first such issue by a company returned to private ownership.

Led by Goldman Sachs, the seven-year bond pays a coupon of 11% per cent at par and the proceeds will be used to repay existing floating-rate debt. The issue had been widely expected in the market since July and was well received, trading at a 1/2 point discount.

The other dollar new issue of the day, Sears Roebuck, the retailer, announced that it was raising \$150m through a 10 year bond also led by Goldman Sachs. Dean Witter is co-lead manager in the deal, which has an 11% per cent coupon at par. The bond is non-callable and traded in the pre-market well within its 1% point selling concession.

Merrill Lynch revealed the pricing on its \$500m floating-rate note for Denmark yesterday. The seven-year note has a put option after five years at par and pays 5% point over the six-month London interbank offered rate (Libor). The all-in cost to the borrower on a five-year basis is reported by Merrill to be 38.75 basis points (0.3875 per cent) over six-month Libor.

In the pre-market, the bond traded at a discount of around 0.85 per cent - outside its 0.70 per cent selling concession.

Komishiroku Photo industry's \$50m convertible, launched at the weekend, was trading around par yesterday. The 15-year bond has an optional redemption after seven years at a price of around 100 and an expected coupon of about 4 per cent. It will be finally priced by Nomura International next Tuesday.

The dollar secondary market opened strongly in the wake of Friday night's better than expected U.S. M1 money-supply figures, but prices traded down again in the afternoon to close about 1/4 point up on the day. Turnover was high.

In Switzerland, the Mortgage Bank of Denmark is raising SwFr 80m in an eight-year public issue with an indicated yield of 6 1/4 per cent. Credit Suisse will price the deal tomorrow.

In both Switzerland and Germany, markets were quiet and prices of seasoned bonds rose by about 1/4 point.

Belgium is raising Y10bn through a "Shibosai" bond - a private placement in Japan by a foreign borrower. The 10-year bond has an 8% per cent coupon at par.

Belgians seek Luxembourg quote for fund

By John Wyles in Brussels

PETERBROECK, Van Campenhout and Co., one of Belgium's leading stockbrokers, is seeking a Luxembourg stock exchange listing for a new investment fund which it is setting up with Nikko Securities of Japan.

Initial commitments from institutions in Belgium, France, Luxembourg, Switzerland and the UK point to a total capital of between \$12m and \$15m for the fund which will specialise in Japanese securities.

The fund's management company will be run by the Belgian brokers and a management contract placed with Nikko International Capital Management of Tokyo. Mr Giorgio Asari, an Italian expert on Japanese companies, will play a leading role on the management company's board.

According to M Pierre Brion of Peterbroeck, Van Campenhout, the fund will seek to exploit investment opportunities offered by Japanese companies which are adapting to changes in the markets for their products, in their investment status or laws and regulations applying to their activities.

FACT ALREADY NEARLY 100,000 members help the British Diabetic Association.

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London W1M 0BD.

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. For further details of these or other bonds see the complete list of Eurobonds prices which is published monthly. The following are closing prices for September 26.

U.S. DOLLAR
STRAIGHTS
American & S Fin 10% 80 100 94 1/2 0/4 -2 11.48
Bank of America 8 82 80 87 -0/4 +0/4 12.05
Bank of Tokyo Hold 11 80 100 95 1/2 0/4 +1/4 12.83
British Cred 10 1/2 80 100 97 1/2 0/4 +1/4 12.82
C.C.C.E. 11 1/2 87 100 93 1/2 0/4 +1/4 12.70
Citi Corp 8 82 100 91 1/2 0/4 +1/4 12.70
Coca Cola Int 8 1/2 82 100 93 1/2 0/4 +1/4 12.83
Cred Suisse 9 1/2 80 100 95 1/2 0/4 +1/4 12.83
Credit Suisse 10 1/2 83 100 95 1/2 0/4 +1/4 12.83
Denmark Cred 11 1/2 83 100 95 1/2 0/4 +1/4 12.83
Dresdner 10 1/2 80 100 95 1/2 0/4 +1/4 12.83
E.C.C. 11 1/2 87 100 93 1/2 0/4 +1/4 12.70
E.O.C. 10 1/2 88 100 101 1/2 0/4 +1/4 12.70
E.O.C. 11 1/2 87 100 101 1/2 0/4 +1/4 12.70
E.O.C. 11 1/2 88 100 101 1/2 0/4 +1/4 12.70
E.S.C. 11 1/2 87 100 95 1/2 0/4 +1/4 12.70
E.I.B. 10 1/2 83 100 95 1/2 0/4 +1/4 12.70
E.I.B. 11 1/2 83 100 95 1/2 0/4 +1/4 12.70
Electrolux 10 1/2 80 100 95 1/2 0/4 +1/4 12.70
Emerson 10 1/2 83 100 95 1/2 0/4 +1/4 12.70
Fiat Int Fin 10 1/2 80 100 95 1/2 0/4 +1/4 12.70
Ford Motor 10 1/2 80 100 95 1/2 0/4 +1/4 12.70
Ges Elec Credit 9 1/2 81 100 92 1/2 0/4 +1/4 12.70
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SECTION IV

FINANCIAL TIMES SURVEY

"THIS COUNTRY, Italy, is the engineering granary of Europe." The words were spoken long ago, on the morrow of the Second World War, by Vittorio Valletta, chairman between 1946 and 1966 of Fiat, Italy's largest industrial enterprise in private hands.

Valletta, whose sternness and singlemindedness won him both enemies and friends, was more than any other responsible for extracting Fiat from the wreckage of war to become the symbol of the "booming Italy" of the 1950s and 1960s. Times of course have hugely changed and his remarks, to a Parliamentary commission examining the prospects of industrial reconstruction in 1966, have an odd ring now. Italy is struggling to crawl free of the mire in which, for three years, it has gripped it, and most of the world's economy.

Valletta drew his optimism from the then advantages of low labour costs, the inventiveness of the Italian people and from the fact that—however aggressive the unions might sound in those days of the Cold War and deep industrial divisions—in the last analysis, they could always be cowed by the economic facts of life.

BY RUPERT CORNWELL

In the event his very success at Fiat did much to promote the emancipation of the unions from the late 1960s onwards, and the consequent rise of Italian labour costs to among the highest in Europe. This development in turn spurred what might be termed "industry's revenge," which has gathered force since the failure of the historic strike at Fiat in the autumn of 1980.

Even so signs of renewed richness in the granary are in many respects hard to discern today. In April industrial production dropped 14 per cent from 12 months earlier, the heaviest such decline in eight years. Unemployment stands officially at over 2m; by some calculations the figure would be half as much again, were the concealed unemployment represented by the system of state-subsidised lay off, or *cassa integrazione*, taken into account.

The losses of state industry have touched new peaks; the Italian public steel industry is at a standstill without precedent, as

it keeps the fruit of years of refusal to face self-evident truth. What hopes of recovery exist, are compromised by continuing high interest rates, the latest reflecting the failure of a successful wage coalition governments to tame the hawks, and remorselessly increasing public sector borrowing requirement, and the inflation it has largely been responsible for generating.

And yet in 1983, the optimism of Valletta is not entirely unfounded. There is of course the recovery of its own Fiat and much of Italy's big private sector industry, and there are recoveries, steady and bright prospects in places of work he would probably scarcely have dreamed. The outcome of the five week strike at Fiat in September and October of three years ago has sent out its ripples into the furthest corners of the national economy.

As so often, Italian industry, like other facets of the country, is hard to read. On the one hand there is the gloomy scene depicted above, and nowhere more than in the public sector. True, some of the engineering business controlled by the three state-run conglomerates—IRI, ENI and EFTIM—drive, Fiat, Alfa Romeo, Saipem, Snamprogetti and (with reservations) the aerospace activities of IRI and EFTIM. Even the telecommunications sector of IRI, long burdened by debts and deficits, seems to be turning the corner, thanks in no small measure to more realistic pricing policies.

The fact remains, however, that last year the three corporations, which employ almost 700,000 people, registered a combined loss of almost 14.800m (\$3.2bn)—thanks to the poor performances of their activities in cars (Alfa Romeo), chemicals, chemicals and synthetic textiles, and, above all, steel. Further, the steel arm of IRI, which is at the eye of the storm over the Brussels Commission's demands for huge capacity cutbacks in Italy, lost Li.436bn (\$956m) in 1982, and worse still is on the cards for 1983.

Plans for restructuring public industry come and go; and Sig Gianni de Michelis, the Minister for State Shareholdings through much of the last Parliament, has talked a vigorous campaign to this end. But Italy's social and political realities have meant that thus far the battle has been unavailing. And steel, with the loss of 20,000 jobs or more implied in the Brussels blueprint, will be a sterner test than any.



Italy's Selenia is among Europe's leaders in air traffic control systems (above left). Ital tel (right) is hoping to close the gap with the world giants in telecommunications equipment through an agreement with GTE of the U.S. to build a new type of digital exchange

Italian Engineering

Highly successful in parts, the sector as a whole still faces pressure. Industrial production is falling, the country is dangerously weak in high technology and the inadequacies of the state bureaucracy are helping neither trend. There are, however, grounds for optimism, particularly on the labour front.

And yet, there is much ground for encouragement. The collapse of the 1980 strike allowed Fiat to effectively make 23,000 workers redundant, and achieve rises in productivity of 20 per cent or more, bringing the group back in line with its main European car industry competitors. Before Fiat, Olivetti under its dynamic chief executive Carlo de Benedetti, had already revitalised itself. Picelli has pushed through a successful re-organisation, while even Montedison, the chemical group and the

fourth member of the small number of genuinely multinational Italian concerns in private hands, sounds more cheerful than for some while—despite a record 1982 loss of close on Li.900bn (\$530m). Such large enterprises however, while greatly influencing the system, are the exception rather than the rule. The 1981 national census discovered, to no-one's great surprise, that the average size of the country's 950,000 classified productive units was a mere 7.4 workers apiece. Confirmation, were any

needed, of how small and medium sized industry is the backbone of Italy's economy.

As if to mirror this truth, the industrialised part of the country has now spread out of the old "triangle" of Lombardy, Piedmont and Liguria in the North-West, to embrace the Veneto region to the east, and Emilia-Romagna, Tuscany, to the south as well. Industrialisation moreover has promisingly reached down the Adriatic seaboard as far as Bari and beyond.

Sometimes the structure takes the form of the one-

industry town: Sassuolo, near Modena, which specialises in ceramics, Valenza Po, east of Turin (jewellery) and Solofra, inland from Naples (leather) and tanning, are but three of a myriad examples. It is a structure which combines the Italian love of the little unit with the potential for economies of scale, given the geographical clustering of similar small companies.

Then there are the productive units "unclassified" in the census—the famous Italian "submerged" economy. How

big it is—10, 20, or even 30 per cent of the national economy is a subject. By its nature it is unquantifiable, even if tangible enough to spur frequently industrial competitors of Italy (notably France) to complain that Italian exporters benefit from unfair advantages inherent in the submerged or "black" economy, and the virtual absence of trade unions, allowing workers to be exploited.

In fact, however, the gap between big and small, and official and unofficial, has narrowed in recent years. In 1979 and 1980, the former epitomised what was worst about Italian industry, the latter what was best. Now, however, as big companies have been forced to make themselves more efficient, the smaller ones have been hit in turn by the recession, and the consequences of their very success.

In the meantime the renegotiation last January of the 1975 "seals mobile" agreement on wage indexation, and long delays in settling new three year wage contracts for key categories of workers (above all Italy's 1.5m metal and engineering workers) have applied some brake to the constant growth in labour costs, and unit production costs for big industry.

But however ambiguous the picture may seem, there are some points about Italian industry on which everyone agrees.

The first is that the country remains dangerously weak in the high technology field. Despite the enduring success of Italian exports of traditional products like clothes, shoes and designed goods, and of more specialised products like aircraft and machine tools, Italy has little choice but to venture much further into the highly specialised, value added sector which offers the best rewards for advanced, high-cost countries like itself.

The huge amount of resources consumed to no point by the steel industry, now vulnerable to competition from the Third World as well as the permanent decline in the appeal of steel as a raw manufacturing material, illustrates the waste that attachment to the old can cause.

High technology industry, and the research and development activity on which it depends, are in turn a prime victim of that other notorious failing of Italy: the inadequacies of its governments and the bureaucracy of the state. If the private financial sector may be criticised for its lack of flair,

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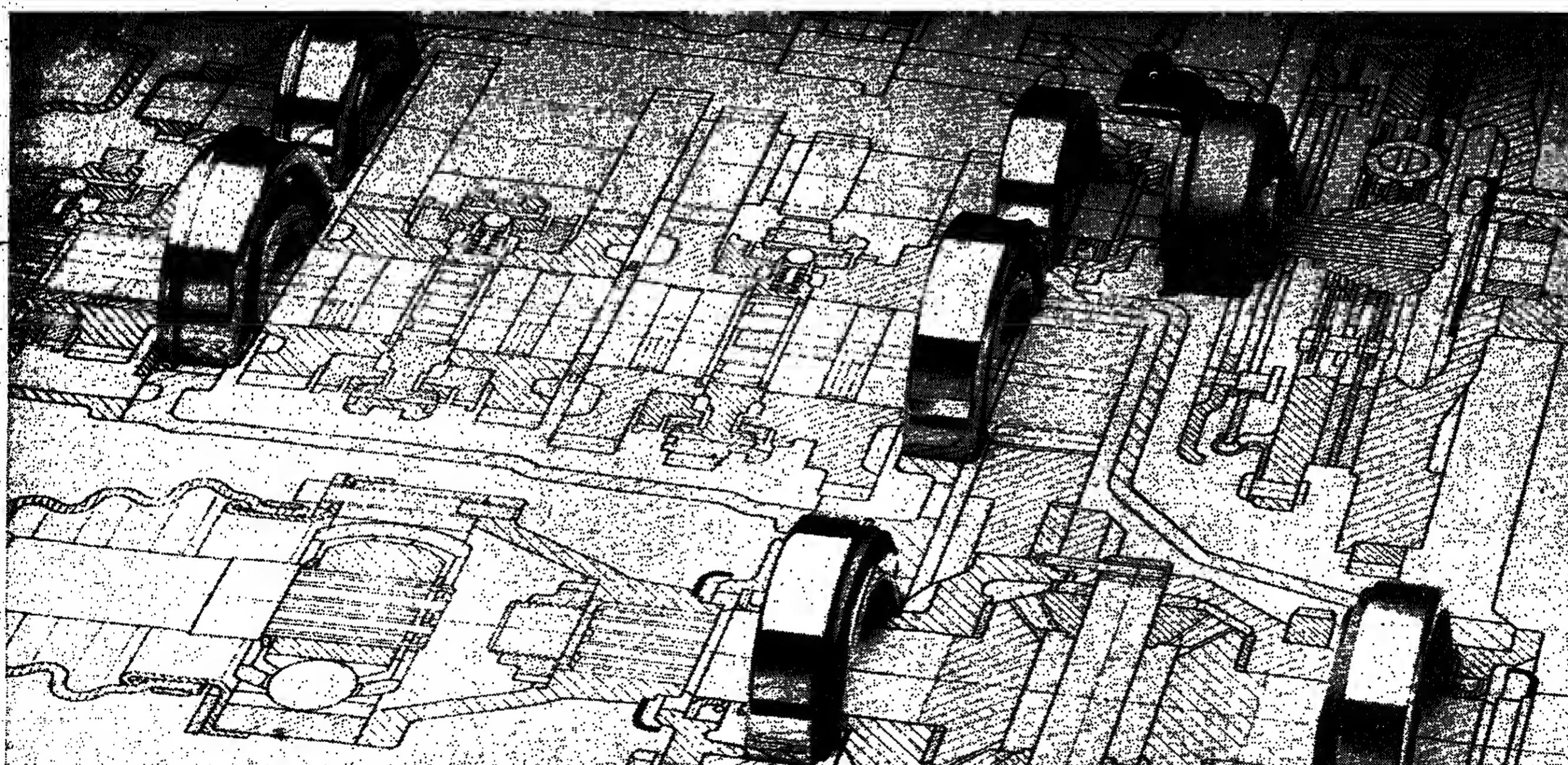
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and readiness to take a risk on a promising new scientific venture, then the state and its appendages have signally failed in their job of encouraging research and innovation.

True, a Li.500m fund was approved earlier this year for such purposes but thus far not a lira has been actually disbursed, at least not to Fiat, one of the prime intended beneficiaries. The results may be seen in recent OECD figures which show that between 1973 and 1980 Italy was the only major industrial nation to run a deficit (of \$2.5bn over the three year period) in its trade of "technologically advanced" products.

Thus far the country has managed to square the circle by a steady depreciation of the value of the lira, ensuring that the currency competitiveness of its exporters has remained more or less intact. The rest, by government default, is left to the flexibility and resourcefulness of the people, and the interplay of forces among them.

Today, the tide is still moving back to management from the unions; but as for that "engineering granary" talked about by Valletta, it remains, like the proverbial glass of water, either half full or half empty, depending on your point of view.



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ORGANISATION

JAMES BUXTON

"Other countries' diesels may often be just as good, but they don't have the special centre that we have," says Giuliano Ruggerini, who runs Ruggerini, the medium-sized Italian manufacturer of high speed diesels.

Ruggerini is based outside Reggio nell'Emilia, on the southern side of the Po valley. What Signor Ruggerini means is that it is easier to sell his diesels because Reggio is not only the centre of the Italian agricultural machinery industry — a big user of diesels—but also the base for a big network of engineering companies of different sizes. Other things being equal, they will buy his diesels, rather than foreign ones.

Not only has Ruggerini got a ready market for its diesels on the small tractors and motorised farm implements of Goldoni, the main Italian company in this sector which is at Reggio. It also relies on another feature of the Reggio area—the mass of small, even microscopic engineering companies which supply its components.

Ruggerini, which had a turnover in 1981 of £27m, employs about 350 people, but it is also the principal employer of a further 600 "external workers." These may consist of small subcontractors employing about 20 people, down to a man and his son working at home. Ruggerini subcontractors to them the manufacture of a good part of its components, including sophisticated and high-stress items.

Many of the "external workers" are former employees of Ruggerini, who decided to set up on their own, borrowing machines from the company to do so. Others lease machines or buy their own. There are all kinds of relationships between the external workers and the main company, testifying to the diversity and imagination of the people and firms involved, and the external workers are not bound to work only for Ruggerini.

Reggio nell'Emilia and its complex of engineering concerns is a good example of how the Italian engineering industry is organised. There is no single big company in the area, only the Reggiane engineering works, Lombardini, Ruggerini's larger rival in the diesel field, and a few other companies. There might not seem to be much difference between Reggio and a town in the West Midlands of Britain. But one difference is the

greater cohesion that seems to exist between the different firms. Another is the greater degree to which the smaller subcontractors disappear into the "submerged" economy — that area where labour costs are lower (because social security and pension contributions are avoided) and taxes can often be evaded.

Though the great companies like Fiat and Ansaldo are Italy's best known industrial concerns, the typical form industry takes in Italy is increasingly the small firm; little concerns which have sprung up all over the country in the past two decades, to accommodate the drift of post-war population from the countryside to the cities. The engineering companies are at the more sophisticated end of this process.

Protective

The growth of small engineering units got a second boost at the end of the 1960s and the beginning of the 1970s when the highly protective labour and social security legislation which followed the "hot autumn" of 1968 made many companies decide to split themselves into smaller units, and farm out more of their work to subcontractors and "external workers."

The submerged economy makes use of the fact that a family unit, whether running a trattoria or a lathe, is not obliged to pay social security contributions for its workers.

Small units are more obviously manageable than big ones, and families who have recently turned into industrial entrepreneurs from being peasant farmers are no strangers to hard work and long hours.

Dr Romano Prodi, the economist who is now chairman of IRI, Italy's vast industrial holding company, has invented a term to describe the system in Reggio and other northern Italian towns. He calls it "economy of scale at the level of the system rather than of the individual unit." Few of the companies in a place like Reggio can do everything under their own roof, they draw on specialist companies for whom certain jobs are more economic than for the big ones. The system works because everyone involved knows what everyone else is capable of.



Hugh Routledge
Agricultural engines on the assembly line at Lombardini's factory in Reggio nell'Emilia. Although no longer small, the company relies on many small firms which supply it with basic parts by exclusive contract.

Another example of this system is at Lumezzane, just outside Brescia in Lombardy, where about 1,100 industrial concerns employing 9,000 people make more than 600 separate products—mostly in the field of plumbing equipment, taps and siphons. There, as elsewhere, the slightly larger firms employ men who are also running their own workshops, in their spare time, often putting their families to work.

The result of the 1981 census of Italian businesses seems to bear out the trend: it showed that though the number of Italian engineering companies had grown by 45 per cent to 180,000 since 1971, the number of their employees had grown by only 25 per cent. The average number of employees per company fell from 14.2 to 12.2, and 82 per cent of all

engineering companies employed less than 10 people.

One of the strengths of this subdivision of the engineering industry is that production can be stepped up or run down very quickly, a considerable advantage over European competitors who have a more viscous labour base. It also means that capital requirements can be spread over a larger number of units, though the role of the banks in providing funds is crucial. Fortunately, Italy has several specialised medium and long-term credit institutions which often give subsidised loans.

On the other hand the small units suffer when there is a downturn and there is no other official safety net for them. Signor Ruggerini says that a 15 per cent cut in production at the diesel factory can mean a 50 per cent contraction for the external workers, since a higher proportion of the work then gets done in the factory, instead of outside it.

The decentralisation and fragmentation of the Italian engineering industry does not just apply to places like Reggio or Lumezzane. Giants like Fiat are heavily on capillaries of medium and small suppliers, both in car production and the other sectors such as trucks and industrial vehicles. But a major change is taking place in the way Fiat Auto, the car maker, buys its components, and this could herald significant changes for the rest of Italian engineering.

Until recently Fiat Auto was dealing directly with about 5,000 separate suppliers. Components trickled into the factory, and a lot of pre-assembly work had to be done in the factory, which did nothing to keep labour costs or keep the workforce content. Because many of the little suppliers were specialists they were often able to drive hard bargains with Fiat over price.

Pre-assembly

But last spring Fiat Auto called a halt. It decided to copy the Japanese system, where car companies deal with a small number of purchased suppliers who now supply components from other firms but who do a considerable amount of pre-assembly work. Fiat's aim is to cut the number of suppliers with whom it deals directly to about 1,000, and the company is insisting on lower prices (by threatening if necessary to take business to suppliers outside Italy altogether) and more pre-assembly work.

The "Japanisation" programme means that Borselli, which makes instruments, is now providing Fiat with complete dashboards for the Fiat Uno car instead of handing over individual instruments for Fiat to assemble itself. More and more companies are reaching agreements with Fiat to centralise with the new policy, and though it is said in the Turin area, which is particularly affected by the move, that unemployment and lay-offs have only been exacerbated, Fiat argues that the policy simply means the transfer of some work from inside Fiat's plants to outside.

Search for private capital intensifies

FINANCE

RUPERT CORNWELL

IF THERE are two things that Italian industrialists never tire of complaining about they are the difficulty of obtaining finance—and, when they can get it, the cost.

They will tell you about the shortcomings of the stockmarket as a source of risk capital, the tight credit difficulty of raising promised—even properly voted—funds loose from an inefficient bank.

They will then, in all likelihood, move on to some robust criticism of the country's banking system: of its conservatism, its sloth and its insensitivity to the requirements of industry.

But one difference is the

risk capital (although that has been changing somewhat recently: the net issue of new shares rose from £3,085m in 1980 to £7,186m in 1981 and £4,004m in 1982). The second is the reluctance of often family-owned companies to go public, and thus see a dilution, if not outright loss, of control of their destiny.

Inevitably, this void has been filled by heavy reliance on mainly short-term borrowing from the commercial banks. Up to a point it is a system which has worked adequately; the richest tissue of Italian industry is its medium and small-sized companies of strong local loyalty and flavour, the highly fragmented and localised structure of the Italian banking system has naturally meshed closely in with such industry.

Under-capitalisation is a problem at the root of the financial difficulties of industry. It has occurred for two reasons. The first is the longstanding inability of the Bourse to generate

risk capital (although that has been changing somewhat recently: the net issue of new shares rose from £3,085m in 1980 to £7,186m in 1981 and £4,004m in 1982). The second is the reluctance of often family-owned companies to go public, and thus see a dilution, if not outright loss, of control of their destiny.

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It is an explanation, among others, for the apparent para-

adox of industry's managing to sustain a very high investment rate (at least until the recession began to bite in 1981) upon so weak a capital base.

Now are the banks, in some respects, perhaps, quite as inefficient as their detractors would claim. Dr Carlo Ciampi, the Governor of the Bank of Italy, observed in May that the margins of Italian commercial banks were roughly in the middle of the international range.

The commercial banks are supplemented by a group of special credit institutes, which by contrast concentrate on medium and long-term lending. Their domestic loans rose to £14,688m in 1982, compared to £8,424m two years earlier.

Here, however, funds are frequently provided by the cumbersome method known as "double intermediation." Funds raised through and issued by a special credit institution are frequently find placement in the portfolios of ordinary banks.

The ordinary bank lends the depositor's money to the special institutes, which then in turn pass the money on to the final borrower.

These special institutes are mostly directly or indirectly publicly owned: although the best-known of them is Mediobanca, operates with the stylish secrecy of the British merchant banks, which in some ways it closely resembles. And indeed, "merchant bank" is the most fashionable phrase to be heard today, among those seeking more streamlined and flexible means of bringing new private capital to the most suitable user, the industrial and commercial enterprise.

Awareness of the problem has been growing for some while in Italy. The state's ever-greater indebtedness has reduced its scope for action, while both a deeply engrained mentality and history militate against the banks putting up more risk capital. After all, the banking laws of 1936, which so sharply divide the functions of the deposit-taking bank and the merchant bank, closely involved in investment in industry, sprung directly from the crash of 1930, when the two processes became fatally intermingled.

Reorganisation

For once, moreover, the Government has been getting something of an example. REI, the new state-owned financial company established to supervise the re-organisation of Italy's troubled consumer electronics industry, is nothing if not one of these new creatures. It has already taken under its wing more than a dozen small electronics manufacturers, with minority shareholdings, within five years. At that point its proteges must swim or sink.

Whether even REI proves a case of too little, too late, will be seen in due course. But it could offer a more promising avenue for state intervention and support for industry than the previous array of legislation on offer. This broadly consists of three laws, of which the best known is Law 675 of 1977, aimed at helping industrial reconstruction and restructuring. The principal problem has been that money allocated is not paid out:

Somewhat more productive has been Law 737 of 1978, sponsoring the formation of banking consortia to help out companies in temporary financial difficulties. The trouble has been the definition of "temporary," where the difficulties have indeed been merely passing as in the case of Pirelli and Snamprogetti, the scheme has worked well. Where it has been attempted in cases of companies beyond salvation, such as the SIR and Liquichemical chemical groups, it has failed.

Last, but not least, is the potential contained in the law passed in 1982, investigating a fund for technological innovation, worth £1.5 billion. Not only does the measure tackle a major weakness of Italian industry, its lack of research and development spending, but it provides for evaluation of projects by a specialist team of officials at the Industry Ministry, without cumbersome approval beforehand by the banks. Fiat in Turin should be one of the first beneficiaries of this new law. True to form however, it has not yet received a single lira.

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Ansaldi: belonging to the IRI-Finmeccanica group, designs and builds complete electrified transport systems and the equipment for them; its systems are in use in the Rome and Milan undergrounds, and in the railway traffic switching yards of many Italian cities.

Breda: belonging to the EFIM group, builds electrical locomotives and carriages for the undergrounds in Milan, Washington and Cleveland, and has supplied electric trains for the railways of Chile and India.

Condotte d'Acqua: operates in the field of the design and construction of every kind of civil works. It carries on substantial activities on the international level, for example in Russia, Iran and Japan, and formerly bored the Mont Blanc tunnel.

Erico Marelli: operates in a great many sectors concerning electronics and electrical machinery; it designs and builds power-supply, control, and traffic-automation systems.

IMI: its operations are carried on in industrial share-holdings and in the financing of research and development programs internationally; among other things, it carries on export-financing programs.

Italstat: belonging to the IRI group, takes part in Intermetro through Italodil; the manufacturing activities of this group are tied to the construction of transport systems in the metropolitan transport sector; it also makes traffic studies.

Cogefar: designs and builds railways, motorways, and metropolitan transport systems. Its most important railways at

the international level are in the Cameroons, in Australia, in Italy, in Switzerland, and in Algeria.



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ITALIAN ENGINEERING III

Opec spending cuts hitting hard

CONSTRUCTION

JAMES BUXTON

A NATIONAL construction industry is rather like a national football team: it may have won the World Cup last year, but under no circumstances can it win again. The record is of little value. Just as the Italian football team has now fallen on difficult days after winning the World Cup in 1982, so the Italian construction industry is depressed—and finding little comfort in its distinguished past.

The Italian construction industry did very well overseas in the mid-1970s, with the boom in Opec countries and in other parts of the developing world. The peak was reached in 1977, when orders acquired—apart from real gains—hit an all-time high. The boom in foreign orders was very valuable since spending on big projects in Italy had tailed off.

But in 1982 new orders amounted to only L2,350bn—just under half the L4,880bn they had reached in 1981; an even steeper drop when presented in real terms. This year things are no better.

Basic causes are obvious: decline in the spending programmes of the Opec countries, which have been cutting back sharply on capital spending as a result of the fall in their oil revenues; and the weakening of the economies of many of the non-Opec developing countries.

Since virtually all Italian overseas construction work is in developing countries, there has been little to fall back on. The Libyan market, Italy's biggest in the OPEC countries, has declined, and companies have had a lot of trouble getting paid. New contracts for Italian companies in Saudi Arabia crashed from nearly L400bn worth in 1981 to L25bn in 1982. In Nigeria, new orders in 1982 amounted to only a fifth of those the year before.

The only possible bright spot is Algeria, where the conclusion, at long last, of an agreement over gas supplies to Italy via the trans-Mediterranean pipeline should open the way to new contracts in construction and plant engineering—though few have yet been firmly agreed.

To a large extent the Italian overseas contractors are suffering problems similar to those of other countries. But ANCE, the Italian contractors' association, believes Italian firms are being hit more harshly than the contractors of other European countries. ANCE says that both France and West Germany have seen foreign contracting orders decline by 35 to 40 per cent in real terms from 1981 to 1982 against the Italian fall of 60 per cent in real terms.

The Italians claim with even

PROFILE: TEAM ENGINEERING

Personal touch pays off

TEAM Engineering is one of those consultancies active in plant and civil engineering design in which Italy excels. Based in Rome it is by Italian standards medium-sized. It has a skilled staff number just 90, compared with the 5,000 employed by an American giant such as Bechtel. And yet this small number, built up personally by the two people whose meeting a decade ago led to the company's formation in 1975, is capable of offering clients a strikingly wide range of services.

These customers tend to be public administrations and governments, most frequently in the developing world (Team's business is 80 per cent generated abroad) for projects ranging from roads, railways and landscaping to new schools, residential complexes and irrigation projects in Nigeria and beyond. In construction services for a new construction faculty building at the University of Ancona on Italy's Adriatic coast.

The choice of Ancona is far from accidental. For a professor at that university, as well as the head of Team Engineering itself is Vittorio Mosco, one of the country's best-known project engineering designers.

Team grew, as have so many such ventures in Italy, at the personal initiative of Prof Mosco and a small group of already qualified specialists, who decided to pool their expertise and set up their own professional group. Today Team has five partners, of whom three are active; its volume of business is a carefully guarded secret, although it would appear substantial if the total size of its principal current venture—the construction of Nigeria's new federal capital of Abuja—is anything like £100m.

The role of the design engineering consultancy is a broad one. It ranges from the initial request by a client for feasibility study, followed by a design of the project. Once this is approved, the scheme is put out to tender organised by the client. As soon as the bids from potential contractors are in, these are evaluated

more concern that South Korean contractors appear actually to have increased their intake of new orders in 1982 compared with 1981, with particular success in Saudi Arabia; while Filipino companies have also done better rather than worse. Here the usual arguments about suspected hidden state subsidies from these companies, with their lower labour costs, come into play, though the overseas point out that the overseas contractors order large quantities of Italian construction materials.

Scornful

Because of these unfavourable comparisons Italian contractors are increasingly blaming their Government for not giving the Italian companies the strong diplomatic and political support that other governments, notably France, give theirs. In particular they—and others—are scornful of the Italian Government for giving the Algerian Government demands for uncompromised reduction in the price of gas via the Trans-Med pipeline, without getting firm commitments that Italian contractors would get offsetting contracts. ANCE also argues that the export guarantee policy pursued by the agency SACE is sometimes ambiguous, as well as too cautious.

Although export credit is becoming more difficult to obtain, Italian contractors should increasingly benefit from the enormous expansion of the Italian foreign aid programme, from being very small a few years ago should this year involve the spending of about L2,000bn, some of which should find its way directly to construction contractors. The construction companies argue, however, that this only brings Italy up to the level of countries like France and Britain in terms of aid spending.

The Italian construction companies believe that in the meantime they must become specialised in particular fields and more capable at handling all aspects of a construction job. Italian companies have a high reputation for building dams and hydro-electric schemes; half the new orders in 1982 were in this sector. Impres has virtually finished the Baskalari irrigation project in Nigeria (one of its first major ventures as a general contractor) and in a consortium with Lodigiani and Givela will be sharing the work on the Yacyretá hydro-electric project in Argentina, with a French concern. Three Italian companies are co-operating with German concerns on the building of a dam at Mosul in Iraq.

Unfortunately for the contractors, there is still little sign of construction work reviving in Italy despite some extravagant plans. Actual spending on major construction projects

CIVIL CONTRACTS ABROAD (Italian Lira bn)					
	Roads and bridges	Railways and underground	Ports & airports	Dams, hydro gas pipeline	Housing and building
1981	754.59	215.4	121.37	83.61	1,386.43
1982	352.03	84.64	48.85	—	936.94
AMERICAS	248.94	302.56	46.56	1,367.80	471.17
1981	20.55	76.00	—	184.40	462.04
1982	—	—	—	—	111.7
ASIA	142.78	—	—	875.12	420.25
1981	69.14	—	3.43	778.98	70.55
1982	—	—	—	—	922.10
EUROPE	—	—	—	43.60	43.0
1981	—	—	—	0.84	0.84
TOTAL	1,146.20	331.56	167.87	1,206.13	2,928.36
1982	441.72	160.64	52.26	1,147.62	553.89
					4,355.15

such as new roads and ports, is still virtually at a standstill, declined by 2 per cent in 1982 compared with 1981 and planned spending fell by between 5 and 7 per cent in real terms in the 1979-82 period. These have been a reduction in spending of modernising infrastructure by such bodies as the Cassa per il Mezzogiorno, the special development fund for the south, as its funds are restricted by the Italian treasury.

In the past year programmes to spend L12,450bn on the railways, L800bn on the extension

of its autostrada network (with more in the pipeline), have been passed by parliament. But so far only L850bn worth of contracts under the first L1000bn tranche of the railway plan have been put out to tender, and some L480bn worth on the autostrada—and it is not clear when contracts will be signed.

House building in the big cities

is still virtually at a standstill, thanks mainly to over-restrictive regulations. But house building outside the main cities proceeds almost unhampered.

But Italy is lucky, by comparison with some industrialised countries, in having a strong and capable plant engineering sector which continues to win reasonable orders in spite of facing some kind of market conditions as the construction industry, where it gains over its rivals in other countries is that it is technically highly skilled in certain fields, and can often offer competitive prices. It is also working in fields, notably oil and gas development, which are still thriving.

Saipem, the pipelaying and drilling subsidiary of ENI, the state energy group, saw its sales rise 28 per cent last year. It has a major project in western Saudi Arabia, and won

an A\$200m contract in Australia for a 1500 km gas pipeline. Its sister company Snamprogetti continues to win foreign orders, acquiring a very large (but unquantified) contract for the oilfield oil pipelines of Libya in the last few months. A deal worth more than A\$400m is expected to be concluded shortly for a gas collection scheme in Algeria—the biggest of several contracts which should go to ENI in the wake of the Algerian gas price settlement.

Italimpianti, a state-owned concern which built Italy's big modern steel complexes, has won a series of small contracts, some involving know-how transfer, compared with the big contracts it was winning a few years ago. It is still plugging away at building the Isfahan steelworks in Iran, which should eventually produce 3m tonnes of steel a year.

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Rupert Cornwell

ITALIAN ENGINEERING IV

TECNIMONT

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Tecnimon provides complete plants or single professional services for any activity of project implementation. Additional services available extend to consulting, financing arrangements, client's personnel training, assistance for plant operation.

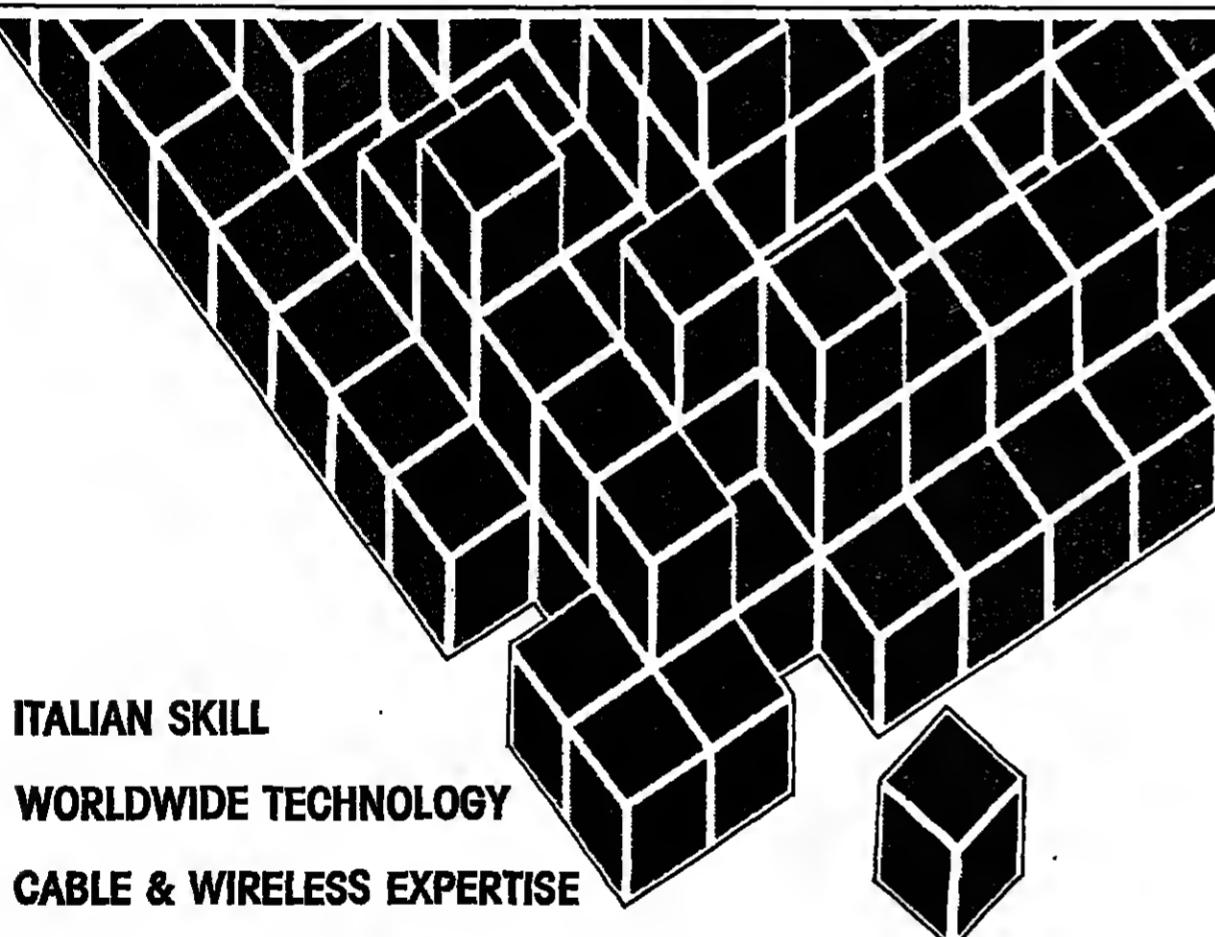
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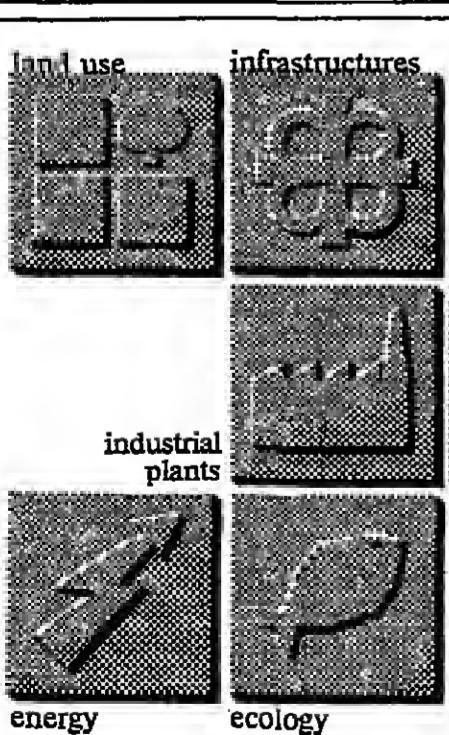


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Factory automation brings benefits to the sector

MACHINE TOOLS

IAN RODGER

THE ITALIAN machine tool industry has coped better than most of its international competitors during the long and deep worldwide recession in capital plant investment.

It has, for example, overtaken the U.S. to become the third largest exporter of machine tools in the world, after Japan and West Germany, and is the fifth largest producer with a 8.9 per cent world market share.

More important, it is emerging as one of the major contenders in the rapidly new business of factory automation.

Italy has five groups of varying size that combine machine tool and electronic control expertise. These are the vital components of flexible manufacturing systems and other types of factory automation systems. Many industrialised countries, including Britain, have no companies that have manufacturing activities in both these areas.

The successful development of the Italian machine tool industry goes back to the late 1960s when the country's consumer goods industries, in particular, were investing heavily in new plant.

Typically, Italian engineering companies are small, with less than 500 employees. They work well with the local machine tool companies, most of which are also small and managed by young engineers who eagerly embraced numerical control technology.

State control of manufacturing industry in Italy is also a significant factor, as state owned companies account for about half of all fixed capital investment in the country.

In the machine tool industry itself, state companies account for perhaps 5 or 6 per cent of total turnover, but two of the five groups aiming at factory

automation markets, Salimp and Elsag, are state controlled.

In the past three years, Italian producers have attempted with some success to make up for the weakness of their home market with exports sales. But last year the value of total sales amounted 12 per cent to Ls 540bn in money terms — 20 per cent in real terms — and exports dropped 4.3 per cent in current prices.

Exports now account for 56 per cent of the industry's output, with about a third going to other European Community countries, 15.4 per cent to other west European countries, 12.8 per cent to eastern Europe and 8.1 per cent to North America.

Weaker orders

Mr Bruno Rambaudi, president of UCMU, the Italian machine tool manufacturers' association, says orders weakened further in the first half of this year, although less for high technology products than for standard products.

The slump is hurting even the strongest companies in the Italian machine tool industry.

Mr Giuseppe Henne, marketing manager for Europe of Olivetti Controllo Numerico, acknowledges that the business, with annual sales of about Ls 100bn, is in loss.

OCN is the leading Italian producer of machining centres, but is strong only in the home market. It also makes assembly robot and numerical controllers. To further its capabilities as a full line supplier of factory automation equipment in European markets, Olivetti in 1981 acquired Esercizio Pietro Pontigata, the leading Italian producer of CNC lathes, and early this year it formed a joint venture with the U.S. called OSAI to manufacture and market A-B's well known CNC controllers in Europe.

Mandelli, another major machining centre manufacturer, managed to stay in the black last year, but its net profit was down 65 per cent to Ls 40m on

ITALIAN MACHINE TOOL EXPORTS (by major countries - 1982)

Destination countries	Value (Lire m)	Change per cent 1982/81	Change	
			Weight per cent (000 kg)	1982/81 Lire/kg
France	126,945	- 8.7	5,338	- 8.0 13,366
USSR	87,131	+ 75.9	4,500	+ 21.7 20,260
W. Germany	82,151	- 35.1	6,714	- 37.5 12,230
U.S.A.	57,578	+ 9.6	4,820	+ 21.6 12,800
UK	44,426	+ 25.7	3,000	+ 5.5 14,450
Switzerland	27,512	- 14.1	2,543	- 33.6 10,830
Spain	26,606	+ 12.8	1,730	+ 52.0 15,360
South Africa	26,077	- 41.8	3,856	- 38.9 7,320
Iraq	19,925	+ 126.0	1,512	+ 125.2 13,160
Sweden	18,916	+ 22.3	1,442	+ 19.6 13,110

Source: UCIMU elaboration on ISTAT data.

sales that were little changed at Ls 34bn.

Mandelli, which also designs and manufactures its own numerical controllers, is well known in international markets, and exports about half its output.

The only major market it

has failed to penetrate is Japan,

and last year, it arranged with

Amada of Japan to manufacture

two of its machining centres

under licence.

"We see it as our Trojan

horse," Mr Giancarlo Mandelli, group president, says.

Mr Mandelli says that factory

automation systems business has

been larger than ordinary

machines sales for the company

since 1981. It is building

systems for, among others,

Ferrari and IBM in Italy,

Caterpillar Tractor, Alsthom

Atlantique and Societe

Nationale des Industries Aero-

spatiales in France and Volvo

in Sweden.

The company that appears to

be the strongest Italian con-

tender in the factory auto-

mation business is the Comau

subsidiary of Fiat. Already

established as one of the leading

world suppliers of transfer

lines for the automobile indus-

try with 1982 turnover of

Ls 422bn, the company has

deliberately attempted to

diversify its customer base in

the past few years, and to

develop its expertise in flexible

systems. Today, about 35 per

cent of its business is outside

the automobile sector, com-

pared with 20 per cent five years

ago.

Among its recent important

orders are a \$7m FMS project

to be filled by Comau.

Order book

Fiat itself now accounts for about 60 per cent of Comau's order book because the group's

motor division is in the middle of a major investment programme. Internal business has been as low as 7 per cent in the past and Comau would like it to be about half its total order book.

Although it already counts the major U.S. automobile companies among its major customers, Comau wants to increase its business in the U.S., so last spring it negotiated a joint venture with Bendix, a U.S. competitor in the transfer line business.

Bendix, for its part, was seeking a European partner with expertise in flexible factory systems. Under the deal, Bendix has taken a 30 per cent equity stake in Comau for an estimated \$30m and Comau gets a 10 per cent stake in a joint U.S. marketing company called Bendix / Comau Production Systems.

Mr Giacca estimates that about 40 per cent of the orders won by the new company will be filled by Comau.

Jobs shadow hangs over rescue plan

CONSUMER ELECTRONICS

RUPERT CORNWELL

domestic consumer electronics market, for products like colour TV, radio and video recorders, where Italy suffers from a chronic trade deficit, reaching Ls 777bn (\$385m) in 1982 alone.

The first tranche, worth about Ls 70bn, of the Ls 360bn available will go to strengthen up to 20 small companies manufacturing either finished electronics products or components. The idea is for Rel to commit new financial resources to each of these companies via capital increases, which will see Rel acquiring minority stakes of up to 49 per cent in their equity. It is envisaged that the state's participation will not exceed five years, after which it will be bought back by the company concerned — by then, it is hoped, restored to health.

More important, however, is the involvement of Rel in attempting to breathe new life into the Italian colour TV industry, alongside two of the biggest, and long most troubled, Italian electronics producers, Indesit and Zanussi.

The scheme will prove to be too little, too late, to make good the backwardness and shortcomings of the industry in Italy, compared to its competitors abroad. The plan, which was finally endorsed by Ciri, the inter-ministerial policy committee headed by Sig Filippo Maria Pandolfi, Industry Minister in the previous Government of Sig Amintore Fanfani, is the fruit of discussions which originated as long ago as 1978. Many moreover would argue that even Ls 360bn is insufficient, given the scale of the problems.

On the other hand, the plan has been drawn up with a thoroughness which augurs well for an eventual success, that would contrast with most other government-inspired efforts to overhaul industrial sectors in difficulty. What is more, it has skilfully exploited the common plight of the companies involved to secure an unusual degree of consensus over its aims and acceptance that alliances with leading non-Italian manufacturers are probably essential.

The kernel of the scheme is a new state-controlled financial company called Rel, short for Ristrutturazione Elettronica, jointly owned by the Industry Ministry and IRI, the publicly-owned industrial holding company.

Its future activities may be divided into four categories, two of which are certain to be implemented and two which have yet to be finalised. All are designed to correct a situation in which foreign suppliers have captured over half of the market — followed by Zanussi with

CONTINUED ON NEXT PAGE

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"Geography of Hunger" reveals how undernourishment is extended, seriously affecting large areas of Africa, Middle and Far East, Southern and Central America, where economy is based chiefly on agriculture and livestock.

This situation is getting worse, because world population and production of food commodities grow at a different rate of development.

The more suitable type of approach to improve this situation appears to rest on integrated rural development programmes; in other words sectorial measures must be designed and co-ordinated so as to involve all the various components: irrigation, improvement of livestock raising techniques and rationing range management; extension of improved agricultural practices; organization of marketing facilities and services; installation of agro-industries to process agricultural and animal products; agricultural co-operation and social infrastructures and services, etc. . .

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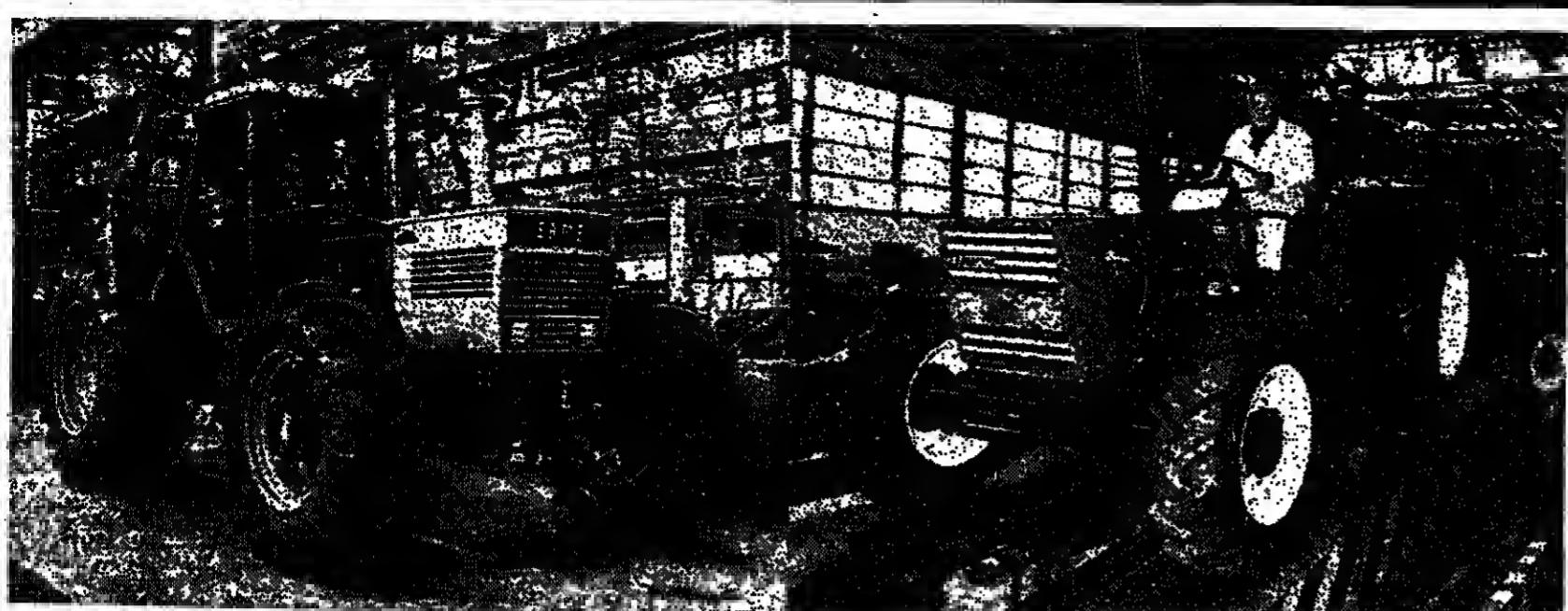
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ITALIAN ENGINEERING V



Same and Fiat tractors coming off the production line. Fiat has a 14.2 per cent share of the Western European tractor market; Same has 7.5 per cent

Top of the tractor league

AGRICULTURAL EQUIPMENT

IAN RODGER

ITALY IS famous for lots of things: song, love, pasta and fast cars among them.

It also produces more tractors for sale in Western Europe than any other country.

Fiat Trattori is the European market leader, with a 14.2 per cent share, having overtaken both Massey Ferguson and International Harvester in the late 1970s.

Same, the other Italian group, has, together with its Lamborghini subsidiary, another 7.8 per cent.

The Italians start with very strong positions in their home market. Fiat with 38.4 per cent and Same-Lamborghini with 22 per cent.

Of the nearly 30,000 tractors Fiat sold in Europe last year, 19,000 were sold in Italy and of the 21,000 sold by Same and Lamborghini in Europe, 10,300 were sold in Italy.

Soil, Fiat has made significant progress in a number of

markets, notably France, Belgium, Denmark, Spain, Greece and Ireland, and claims a 9 per cent market share in Europe, trailing Italy. Same's main export markets are France and West Germany.

Ask the Italians why they have succeeded, and the answers are not surprising.

"We have a new product line,

good service and we produce efficiently without big overheads in a single factory," says Vittorio Di Iorio, sales director of Fiatagri, the newly formed Fiat subsidiary that combines its agricultural equipment activities.

Same attributes its success in large part to a deliberate decision in the late 1970s to concentrate on large, four-wheel drive tractors, which now account for over 80 per cent of sales.

"The market was moving that way and we anticipated it," says Renzo Micheletti, planning and marketing director, says.

Same is also one of only two major tractor manufacturers that make air-cooled engines, the other being Deutz of West Germany.

Fiat is also a major supplier of tractors in many markets outside Europe, with 46 per

cent of its production going to other continents.

As a result, however, of financial instability and operating restraints in many third world markets, the group is increasingly inclined to concentrate its efforts in what it calls a free market.

"When you are in a free market, you sell your best product at your best price," Mr Di Iorio says.

Mistakes

"But when you start to sell (by agreeing with a country, for example, to install a different engine because it is made in that country), then you have problems and you start making mistakes. And if the local market collapses, you can't sell your product elsewhere."

The market Fiat is trying to develop now is the U.S., where it had been represented only indirectly until three years ago. Sales are building up slowly, the group expects to sell 1,500 tractors in the U.S. this year.

"This is our adventure. It is not vital, but everyone is satisfied and we are doing a good job."

Fiat plans to continue building its European market share, but is not interested in buying other companies. "It would be

too costly to close their factories."

Mr Di Iorio complains about government subsidies and exceptional bank credit terms given some of his competitors, but is philosophical about it.

"Maybe, if we were in trouble, we would play the same tricks."

Fiat Trattori is operating at an "satisfactory" level, its increase in market share having enabled it to maintain production.

"We have not lost money since 1974 and have been able to invest \$70m in the past three years on improvements to our transmissions and cabs."

The same group (Same is an acronym for the Italian words for an engine company) consists of three tractor manufacturers, Same, Lamborghini and Hurlmann of Switzerland.

Until two years ago, the three companies ran independently, developing their own products and operating their own manufacturing and marketing organisations.

Since then, the group has been developing a new product line for the three companies, the Same models of which were introduced this year.

Same suffered with the 11 per cent decline of the Italian market last year, but improved its market share fractionally.

Production had to be slowed late in the year to reduce stocks, but total group output was fairly satisfactory at nearly 17,000 Same tractors, 7,000 Lamborghini tractors and nearly 1,000 Hurlmann tractors.

Group turnover was up 5.7 per cent to £483.5m. Same's overseas turnover was up nearly a quarter to £163.8m because of its improving position in European markets and favourable currency movements. Less than 10 per cent of its sales come from outside Europe.

Optimistic

Mr Micheletti said he hoped this would be the last year of recession in the Italian market, and he was optimistic that both Same and Lamborghini would remain profitable.

Same's strategy is similar to that of Fiat in that it favours concentration on European markets.

The group made a big effort a couple of years ago to try and establish itself in China, but has virtually given up. "So far, we have spent a lot of money in China," Mr Micheletti says wryly.

Nor does the group intend to diversify, except into the "huge" diesel engine market. Same tried making commercial vehicles in the early 1970s but soon abandoned it.

Reorganization and modernization of Nuova Italider Iron and Steel Plant in Bagnoli.

Reorganization and modernization of Nuova Italider Iron and Steel Plant in Taranto.

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ITALIAN ENGINEERING VI

Thriving on the Nato connection

DEFENCE ELECTRONICS
JAMES BUXTON

ROME is not an industrial city and Italy, despite Olivetti, does not have a reputation for being in the forefront of the electronics industry. Yet, out on the Via Tiburtina, which leads from Rome to Tivoli and beyond, are based some of Europe's most advanced companies in a major sector of electronics—defence.

The three main companies are Selenia (though about half its sales are on the civil side), Elettronica and Contraves. Between them they produce an impressive range of offensive and defensive weapons systems and the apparatus to control them, as well as some Europe's most sophisticated electronic warfare equipment.

All three are highly export-orientated, selling about three-quarters of their output abroad, and all three have had very fast real growth in the past few years. This is due to the world boom in defence sales in general and to the success of the Italian defence industry in particular, which is now reckoned to be the fourth biggest exporter in the world, after the two superpowers and France and ahead of Britain.

Demanding

By any yardstick the Italian defence industry has, since 1976, vastly outperformed any other sector of the Italian engineering industry.

The Italian arms industry thrives on a unique combination of factors. As members of Nato the Italian armed forces need reasonably sophisticated equipment but are neither so wealthy nor demanding that they can impose their will on defence suppliers and insist on products that are too expensive or sophisticated to sell elsewhere—as often happens in Britain, for example.

This means that Italian military products are likely to be highly commercial. Export controls for many defence items are not always very exacting, though there are strict limits on sales of electronic equipment. Italian defence salesmen are renowned for their technical competence, persuasiveness and flexibility. The defence electronics industry benefits greatly from being part of a strong national defence industry.



The antenna on this Augusta-Bell A129C helicopter enables the aircraft to discover if it is being detected by an enemy radar, and where and what type the radar is. The system's maker Elettronica, concentrates almost wholly on electronic warfare equipment.

The leading company in the electronics field is Selenia. The company has grown very fast since the beginning of the 1970s, with staff rising from about 500 to over 2,000; sales rose from just under £40m in 1977 to over £130m in 1982 and should continue to outpace inflation to reach £160m this year.

Of the three main defence electronics companies on the Via Tiburtina, only Contraves has moved out of its earlier rather ad hoc and randomly expanded plant: it now lies

Selenia itself, which accounts for nearly £400m of that sales figure, is roughly divided between military and civil production. It is one of Europe's leading companies in the field of air traffic control and claims to have a quarter of the market of the world air traffic control which it defines as "Europe".

As an indication of Selenia's strength in the radar field it recently sold a licence for one of its radar systems to Sperry of the U.S. The fact that Italy itself is only now getting an air traffic control system covering the entire country—built by Selenia—is cited as an example of how little backing the Government gives the company.

In the defence field Selenia makes the Aspide multi-role missile which has been sold to 15 countries. The missile is used in air defence systems including the Albatross naval system (mounted on the successful Lupo and Maestrale frigates which are built and equipped by a consortium of Italian armament makers and shipbuilders).

Selenia has also developed the Spada ground-to-air defence system using Aspide and has sold it to the Italian Air Force for use in air defence. It also makes military radar and electronic warfare equipment.

Heavy investment

For many years Selenia consistently made losses which the company attributes to the fact that it had to make such heavy investment in research and development but which its private sector competitors less charitably blame on the fact that it is a state-owned company.

But in 1981 it made a modest profit of £5.5m; last year this went up to £8.7m. The company reckons it is now reaping the fruit of past investment.

Another company in the Elettronica San Giorgio-Elseg group in Genoa which in the defence field makes naval systems and factory automation equipment it recently bought DEA (Digital Equipment Automation), small but fast growing Turin-based electronics company which was recently bought by an American company.

A few hundred yards up the road from Selenia is Elettronica Elseg, one of the most remarkable electronics companies in Italy. It concentrates almost 100 per cent on electronic warfare equipment and is privately-owned. It is the creation of one man, Sig Filippo Frattalochi, who founded it in 1951 initially to make transformers for the railways. In 1955-56 it converted to electronic warfare equipment, then a field almost entirely unknown in Europe and certainly in Italy.

Electronic warfare falls broadly into two parts: electronic support measures (ESM) and electronic counter-measures (ECM). ESM involves such things as equipment to tell a ship, aircraft or army formation if it is being detected by an enemy radar, and where and what type the enemy radar is. ESM equipment can be used to build up a picture of the enemy's order of battle via his radio and other emissions.

ECM goes a stage further and involves the jamming of the existing transmissions and the retransmission of radar signals altered so that an enemy may fire his missiles at the wrong target.

The company has designed equipment for use in aircraft, components with a high degree of commonality between the naval and air force equipment, to simplify logistic support and maintenance and also makes all its critical components itself so as to be independent of outside suppliers and able to adapt its components to the use for which they are required.

Elettronica says it has never produced under licence from other manufacturers and says it built up its electronic warfare know-how with the help of men who had originally designed the radars they were now trying to

behind poppy fields and closed circuit TV cameras in an intimidating gold grained building within which staff members move quietly about with their identity badges clipped to their lapels. Contraves is a wholly-owned subsidiary of the Swiss company Oerlikon-Bührle which set up in Italy in the 1950s mainly because of its access to the Nato market and comparatively low labour costs.

Its mixture of national production bases and the fact that many weapons projects are anyway joint ventures between different companies and countries gives Contraves a chameleon-like ability to make itself politically acceptable to almost any customer. It now has operations in Italy, the Middle East and Africa, while the parent company in Switzerland handles the Nato market.

After a history of developing what it says was the first sea-skimming missile (Seakiller) it specialised on fire control systems and radar. Its current pride is Seaguard, one of only a tiny handful of what are called close-in defence systems for ships: the last defence for a warship against aircraft and, especially sea-skimming missiles like Exocet. Seaguard consists of a search radar, a tracking radar, a very rapid fire gun and, if necessary, the anti-aircraft missile Aspide (made by

Contraves) which is being approached by a missile the system should activate itself automatically and shoot down the missile using its four barrelled gun which is capable of firing more than 3,000 rounds per minute.

High hopes

Contraves says that the tracking radar and the fire control system—the heart of Seaguard—were designed and made in Rome, while the UK company may already be designing the search radar and Oerlikon is responsible for the gun. The interesting thing about Seaguard is that it is a private sector venture—Oerlikon decided to invest in it and has so far spent about \$100m.

So far, however, having been unveiled at the Genoa naval weapons show in 1982, only one navy—the Turkish—is thought to have bought Seaguard, but Contraves has high hopes of selling to Britain's Royal Navy, after which other orders could easily follow. So Seaguard is not yet in series production and Contraves is waiting to cash in on its investment.

Contraves recorded sales of about £110m in 1982, of which about 80 per cent is exported. It employs about 1,100 people and does not talk about its profit.

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—Alifana railway line modernisation 23 km — 13 stations

Turin:
—Light rail transit line No. 1 14,210 km — 25 stations

Rome:
—Lazio railway network modernisation
Rome-Viterbo Line
Rome-Frulli Line

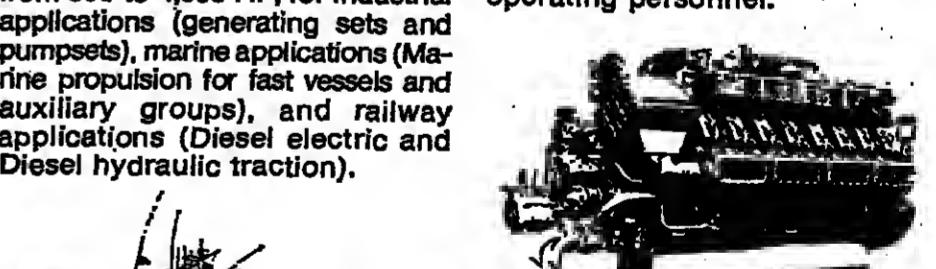
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powering 1000 KW.

As far as the export side is concerned, a contract has just been finalized in Peru for the supply of 28 generating sets, each of 600 KW, for the total value of 6 million Dollars. This contract is part of a development programme of agricultural areas of Peru. The electrification plan of decentralized districts eliminates the extremely expensive cost of bringing the electricity in through the conventional network.

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saving national financial resources

Roncaglia OPR flour milling plant

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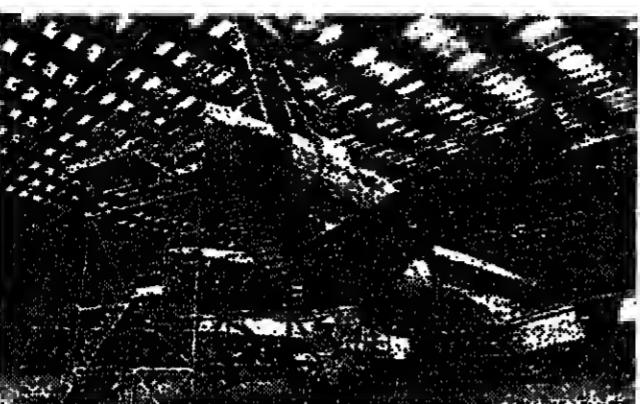
RECESSION IS beginning to nibble at the Italian aircraft industry. After several years of rapid growth, exports are rising less quickly than before and new orders are arriving more slowly.

But thanks to rapid advances in the past few years the Italian aerospace industry is now one of the most important in Europe, both in size and technical competence. Governments have intervened with reorganisations and partial or total state-ownership of most of the companies. Much of the industry's success has been achieved despite rather than because of the Government.

For example, there has been no pressure for Italian aerospace companies to take part in very expensive, prestige projects of the Concorde variety, while the Italian air force has never had the money to support the industry in the way the RAF has supported British aircraft manufacturers.

Success in the industry has been due rather to clever exploitation of gaps in the market left by the larger manufacturers, to far-sighted arrangements for the transfer of foreign, mostly US, technology, to sensible sub-contracting deals with other manufacturers, and to the traditionally effective Italian craftsmanship, especially in developing countries.

The industry's total turnover was only £740m in 1977. In 1982 it had reached £2,900m, an impressive increase even allowing for high Italian inflation rates. Sales growth in 1982 alone was 31 per cent. Exports



An Alitalia jet undergoing maintenance. The state airline has strong doubts about the European Airbus A320 project, and Italian manufacturers are hesitating over possible participation, despite strong French pressure

to have collapsed.

Aeritalia, which increased its sales by 52 per cent in 1982 to £800m, and doubled its profits to the still modest level of just over £1m, is the biggest company by sales, the main operator in the sector of large aircraft. It builds the Panavia Tornado, in partnership with Britain and West Germany, and the arrival of the first of the 100 of these aircraft which the Italian air force is ordering is a major cause of the boost to the company's sales.

Aeritalia also produces the G222, the twin-engined military transport aircraft which is currently the largest aircraft of entirely Italian manufacture. The majority of G222 sales have been to the Italian air force, and though the aircraft with Embraer of Brazil, as well as with Aeritalia; designed to replace the old G.91 in the Italian air force. It has also been ordered for the Brazilian air force — total orders now amount to 26.

Though the AMX's first flight is due by the end of this year, series production could be delayed by the fact that the Italian parliament had not approved the £470m worth of financing needed before it was dissolved for the general elections.

Distinguished

Aeritalia is doing well with its DC-8 Series 80, of which Aeritalia has already ordered 30. An Aeritalia subsidiary will also do the work on refurbishing old DC-9 aircraft which McDonnell Douglas will be buying in from Alitalia as part of the deal.

The Italian manufacturer's ties with the two big American aerospace companies would not preclude it from joining the European Airbus consortium, but in practice Italy has grave doubts about the viability of the A320 project, which France is very keen for it to join.

The project, for a 150-seat airliner, does not fit in with the needs of the airline Alitalia, since the aircraft will not be available until long after the DC-8 Series 80 programme is complete. It doubts whether the A320 will be commercially viable anyway, which could make the investment of about £200m in it that Italy will be expected to put up difficult to justify.

If Boeing goes ahead instead with its own 7 Dash 7 project for an aircraft similar to the A320, then Aeritalia could be expected to participate in that. For the moment the official Italian position is that other

things being equal, it would prefer to join a European rather than an American aircraft project. The Italian government's view, however, is that other things are not equal.

But Aeritalia is co-operating with Aerospazio of France in the construction of the ATR 42 commuter aircraft. The aircraft, which will have about 50 passengers, has already won about 50 orders, and there is considerable interest in a possible military version with a rear loading ramp. The first flight is expected in August next year, and the first deliveries in 1985.

Through its stake in Aeritalia, Aeritalia is closely involved with the AMX project for a light attack and battlefield support aircraft. The AMX is being developed in partnership with Embraer of Brazil, as well as with Aeritalia; designed to replace the old G.91 in the Italian air force. It has also been ordered for the Brazilian air force — total orders now amount to 26.

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Opposition

But the idea, voiced by Sig de Micheli at the Farnborough air show last year, of transferring ownership of Agusta from EFM to IRI appears to be moribund for the moment, mainly because of EFM's opposition to the idea of losing one of its better assets — and one which could be said, if looked at in a different way, to fit well with EFM's other defence interests — it controls Oto-Melara and Breda, for example.

The two Italian aero-engine companies, Fiat Aviazione and Alfa Romeo Avio, are not directly involved in this controversy. Fiat Aviazione achieved sales of £800m in 1982, a rise of 44 per cent and made a profit of £11m. Alfa Romeo's sales were £580m. Fiat is gradually moving from production of engines under licence to the development of its own technology through joint ventures.

It recently signed an agreement with Pratt and Whitney of Canada for the development of a new jet engine for helicopters for use on Sikorsky models. It has also joined, as a junior partner, in the big consortium which will jointly produce the engine for a new generation of 150-seat airliners.

Alfa Avio has a strong position in the servicing and maintenance of aero engines and in the manufacture of tanning units. It has also developed a turbo-prop engine (the first all-Italian aircraft engine made in Italy since the war) and a small turboprop.

In the airframe industry one might expect that the pressure for rationalisation would increase as times became more difficult. Last year was a difficult one for helicopter sales, and the disappearance of the skidder market and the weakness of the commuter aircraft market are alarming. Developing countries are in a bad way and the oil producers are retrenching. The immediate prospect is that competition for the Italian industry will become more intense.

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ITALIAN ENGINEERING VIII



Fiat's bestseller, the Uno, and the Datsun Cherry Europe, the product of collaboration between Italy's Alfa Romeo group and Japan's Nissan

At last, the outlook improves

MOTORS

RUPERT CORNWELL

THINGS at last are looking up for the Italian motor industry. The improvement is not conclusive, and could yet be nullified if the hoped-for worldwide pick-up in car demand does not materialise. But senior officials at both Fiat and Alfa Romeo, the two leading Italian manufacturers, are convinced that the industry is in stronger position than for many years.

The trend is evident in most of the traditional yardsticks used to measure the sector's health — market shares, financial performance, new models and productivity. In terms of absolute sales the picture is less encouraging but that will only be put right when both the Italian domestic market and those in other major Western countries recover. And if there are fragile signs of such a recovery elsewhere, demand for new cars at home is weak. Deliveries in the first six months of 1983 were 8 per cent down at 897,566 units, compared with the same period of last year.

As usual, the running is being made by Fiat, which alone accounts for some four-fifths of total Italian car output. The Turin-based group's car division, Fiat Auto, is currently in the middle of a £3,400m (£3.6bn) programme of investments in new models between 1980 and 1985. Earlier this year the spending yielded its most important fruit so far, with the launch of the Uno, the small car which Fiat is banking on to be to the 1980s what the hugely successful, but now rather

ancient, 127 was to the 1970s. The first results since Jenuary's debut have been distinctly promising. The new car is already the top seller within Italy, and Fiat is hoping for further benefits as the Uno is introduced in other major European markets throughout 1983.

There are other noticeable results of the capital spending too. Both the Panda utility model, and in particular the middle-of-the-market Ritmo range, have been given significant facelifts while this autumn the successor to the 131 model is due to make its first appearance. Provisionally named the Regata, the 131 will be a traditional three-volume saloon.

Commitment

Further in the future is the "Tipo 4" model which will replace the present top of the range offering of Fiat, the Argenta. The sprucing up of the model range will be underpinned by a heavy commitment of resources to robotisation in the aim of improving product quality and reliability.

The efforts made by Fiat have thus far been only partly reflected in its financial performance. Consolidated profits for 1982 are expected to be above the £90m achieved for 1981, but the group is still suffering from the costly implications of its disengagement from traditional, but loss-making, operations in Latin America, notably Argentina.

In Europe Fiat Auto achieved a profit last year of £260m, but this was more than offset by £340m of losses incurred elsewhere in the world, above all in South America. Even so, a massive improvement in productivity is claimed at 40 per cent since the low point of 1979 — is enabling Fiat to free re-

sources for investment and improved marketing.

A consequence has been a sharp improvement in the group's share of its all-important home market. In the first six months of 1983 Fiat itself claimed 45.8 per cent of total sales, and 44.8 per cent in 1982. The advantage is more striking at group level: 54.5 per cent, compared with 51.4 per cent for last year as a whole.

In April 1983 alone, the Fiat group's share of the Italian market reached 57 per cent, a proportion not matched since the halcyon days of 1970s.

One reason has been the success of the Uno but an equally important factor has been the strong performance of Lancia, the upmarket subsidiary of Fiat, acquired for a token £100,000 in 1969. A third of the 1980-85 spending is earmarked for Lancia, and the new Prisma model, launched a few months ago, has proved something of a winner.

Lancia, together with its stablemate Autobianchi, has now outstripped Alfa Romeo to take second place among Italian manufacturers, with 8.7 per cent of total domestic sales in the first six months of 1983.

Production at the company's main plant of Chivasso, close to Turin, is now running at full capacity.

Alfa Romeo, however, is not replaced by what it trusts will be only a temporary demotion. One reason for the company's relative cheerfulness was the decline in losses reported for last year — to £80m from almost £100m in 1981 — and the considerable improvement in productivity achieved after agreements last year both at its Iriese factory, close to Milan, and the once notorious Pomigliano d'Arco plant, near

NEW VEHICLE REGISTRATIONS IN ITALY

	1st-half 1983	1st-half 1982
Total	899,756	100
Italian manufacturers	561,729	62.4
of which:		57.9
Fiat	412,733	46.5
Alfa Romeo	55,881	6.2
Lancia/Autobianchi	74,737	8.3
Others	12,358	1.4
Imports	328,027	37.5
	402,945	41.1

Naples.

Another, however, is the small revolution about to overtake Alfa's own model range. The first novelty is the new Alfa 33, designed to slot in between the entry Alfa 3 and the Giulietta, which received its European launch in May.

But the increasing emphasis on co-operation to achieve economies of scale has extended to alliances going beyond frontiers. Fiat and Peugeot are working together on a new company's controversial link with Japanese Nissan, 50 per cent Italian and 20 per cent Japanese by parts.

The model, the Arna, has been the object of a £60m (£40m) investment programme, and will be marketed through whichever of the two parent networks happens to be stronger in a particular country.

Further ahead lies the replacement to the Alfa 7. If these various developments achieve the success which Alfa's management is expected, then hopes that the company's losses will be shaved in 1984, and disappear in 1985, could prove to be justified.

An additional ground for pride is the agreement reached in November 1982 between Fiat and Alfa for collaboration in the components sector, putting an end to many years of waspish jealousy and overlapping

duplication between the two.

The first common components will feature in Fiat's Tipo 4, and in new models due from both Lancia and Alfa within two or three years.

But the increasing emphasis on co-operation has extended to alliances going beyond frontiers. Fiat and Peugeot are working together on a new company's controversial link with Japanese Nissan, 50 per cent Italian and 20 per cent Japanese by parts.

The model, the Arna, has been the object of a £60m (£40m) investment programme, and will be marketed through whichever of the two parent networks happens to be stronger in a particular country.

Further ahead lies the replacement to the Alfa 7. If these various developments achieve the success which Alfa's management is expected, then hopes that the company's losses will be shaved in 1984, and disappear in 1985, could prove to be justified.

An additional ground for pride is the agreement reached in November 1982 between Fiat and Alfa for collaboration in the components sector, putting an end to many years of waspish jealousy and overlapping

Home market grows but exports remain modest

ITALY CONSOLIDATED its position last year as Europe's second largest producer of diesel engines after West Germany.

Total production jumped 14 per cent to 824,000 units, almost entirely because of a big increase in the use of diesel engines in new cars and trucks.

The number of diesels going into cars was up 54 per cent to 198,000 and the truck market for diesels was up 15 per cent to 91,000 units.

The largest single end market for diesels, agricultural tractors, was off 2 per cent to 220,000 units and most other traditional markets, such as generating sets, construction equipment and industrial equipment also weakened.

In the current year, the car and commercial vehicle markets are expected to continue to grow while other application areas have been weaker, notably because of very soft markets in Italy for agricultural and construction equipment.

However, Planning Research & Systems, the London consulting group, are forecasting an 8 per cent increase in total output to 1,074,000 units.

Italy is fortunate in having strong competitors in all the main sectors of the diesel engine industry.

The Fiat group leads the industry with over 50 per cent of total sales. Its diesel engine manufacturing operations are divided between those carried out by Fiat Auto for cars and light trucks, and those by Iveco for big commercial vehicles, and most other applications.

● Two years ago, VM, which until then had supplied engines mainly for construction equipment, introduced a series aimed specifically at high value cars. The two customers it has found for the new engine so far are Rover of Britain, and Alfa Romeo.

Rover introduced a 2.4 litre version of the engine in its 2400 SD early this year. So far it is apparently selling well in Italy, where diesel-powered cars are popular because of significantly lower taxes on diesel fuel than on petrol, but in Britain it has been a slow starter.

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● Last year, Lombardini signed a joint venture agreement with Briggs and Stratton of the U.S. aimed at increasing its sales in that country. Briggs is the world's largest producer of small petrol engines. Lombardini has also been very successful in attempting on its own to replace Briggs engines in many small pumps, generators, sets and garden implements. It hopes that the joint venture will do better.

● Ruggierini made an exchange agreement last year with Mitsubishi Heavy Industries of Japan. Mitsubishi makes water-cooled small diesels, while Ruggierini's are air-cooled. The agreement provides for Ruggierini to make Mitsubishi engines in Italy and for Mitsubishi to make Ruggierini engines for sales in the Far East.

● Iveco set up a separate organization last year to treat engine sales as a distinct business. This was because about three-quarters of all Iveco engines are sold to customers other than Iveco itself, and the group wanted to increase its

presence in foreign markets.

Typically, about a quarter of Iveco's engines go to Finmeccanica, the Fiat subsidiary that makes agricultural equipment. Another 3 to 4 per cent go to Fiat-Ali, the construction equipment manufacturer, and other Fiat subsidiaries.

The rest go to outside customers, including agricultural and construction equipment makers, coach builders, generating set assemblers, industrial equipment manufacturers and small to medium-size boat builders.

Last year, Iveco made roughly 280,000 engines at its five factories. This represents about 30 per cent of the group's two-shift capacity. Its engines range from 2.5 litre models for light vans to 12-cylinder, 17 litre units for railway engines.

(Fiat Auto, the Fiat car division, manufactures diesel derived from petrol engines up to 2 litres.)

It is not clear to what extent Fiat subsidiaries are obliged to buy Iveco engines rather than those of competitors. Iveco has taken over from Caterpillar Tractor the supply of engines to Hawker, the U.K. jet battles manufacturer acquired recently. But MacCannoch, which runs with Deutz engines a year and half after Fiat bought out Klockner-Humboldt-Deutz's minority interest in the truck maker. Also, some Fiat-Ali's machines use Cummins engines, although these are in bigger sizes than those made by Iveco.

Mr Mario Locatelli, manager of Iveco's diesel division, says the group will sell Magirus trucks with Deutz engines as long as the market wants it.

Mr Locatelli says Iveco's goal is nothing less than to become, like Perkins Engines of Britain, an independent manufacturer known throughout the world for high quality engines with strong service support.

It is also looking carefully for opportunities to take over the supplying of engines to other commercial vehicles manufacturers.

"In order to survive in this business, you have to be able to invest £100m a year in new plant and engines. If you are a truck manufacturer, making only 10,000 engines a year, you won't be able to do that," he says.

"Sooner or later, someone will force the pace in engine innovation, and the others will have to follow or withdraw."

One recent international deal with Industrial Development and Procurement of Detroit means Iveco will supply IDP with some 20,000 engines a year, starting next year.

A NEW DANIELI MARKET MILL POINT LISAS - TRINIDAD and TOBAGO

On May 29 we started up successfully the market mill designed and built for Central Trinidad Steel Ltd.

The mill which is very well located in respect of Central and South America markets, has been supplied under the terms of a contract entered into on January 15, 1982. The main feature is the remarkable degree of flexibility when the rolling schedule is changed.

This further notable achievement proves that the Italian industry, with its constant commitment, technical ability & capability of adjusting itself to different working & environmental conditions can attain high level results all over the world.

MAIN TECHNICAL DATA

Production capacity: 180,000 tpy
Feedstock size: 130x130 mm
Product range: squares 9 to 16 mm rounds 15 to 25 mm channels 75 to 100 mm angles 25 to 75 mm flats 25x6 to 50x10 mm
Value of contract: Lit. 17,000,000,000

MAIN DANIELI PLANTS IN THE WORLD

ITALIA	UK
BENELUX	KENIA
GDR	LIBIA
FRANCIA	SUD AFRICA
GERMANIA FEDERALE	BIRMANIA
PORTOGALLO	MALESIA
SPAGNA	TAILANDIA
SVIZZERA	TAIWAN
SCANDINAVIA	COLOMBIA
JUGOSLAVIA	MESSICO
URSS	VEZUELA
ARABIA SAUDITA	CANADA
GIORDANIA	USA

DANIELI

FRIULI IN THE WORLD

